

**Department of Human Services
State of Hawaii**

Financial Statements
June 30, 2013
Together with Independent Auditor's Report

Submitted by

**THE AUDITOR
STATE OF HAWAII**



A Hawaii Limited Liability Partnership

March 24, 2014

Ms. Jan Yamane, Acting State Auditor
Office of the Auditor
State of Hawaii

Dear Ms. Yamane:

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, 2013. Our audit was performed in accordance with the terms of our contract with the State of Hawaii and with the requirements of the U.S. Office of Management and Budget (OMB) Circular A-133, *Government Auditing Standards*, Audits of States, Local Governments, and Non-Profit Organizations.

OBJECTIVES OF THE AUDIT

The primary purpose of our audit was to form 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, 2013, and to comply with the requirements of OMB Circular A-133. The objectives of the audit were as follows:

1. To provide a basis for an opinion on the fairness of the presentation of the DHS's basic financial statements.
2. To determine whether expenditures and other disbursements have been made and all revenues and other receipts to which the DHS is entitled have been collected and accounted for in accordance with the laws, rules and regulations, and policies and procedures of the State of Hawaii and the federal government.
3. To determine whether the DHS has established sufficient internal controls to properly manage federal financial assistance programs and to comply with the applicable laws and regulations.
4. To determine whether the DHS has complied with the laws and regulations that may have a material effect on the basic financial statements and on its major federal financial assistance programs.

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 as of and for the fiscal year ended June 30, 2013.

ORGANIZATION OF THE REPORT

This report is presented in five 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, 2013, and our opinion on the basic financial statements.
- Part II – Our report on internal control over financial reporting and compliance.
- Part III – Our report on compliance with requirements applicable to each major program and internal control over compliance.
- Part IV – The schedule of findings and questioned costs.
- Part V – The summary schedule of prior audit findings.

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

Sincerely,



Wilcox Choy
Partner

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PART I
FINANCIAL SECTION



A Hawaii Limited Liability Partnership

Independent Auditor's Report

Office of the Auditor
State of Hawaii

Report on the Financial Statements

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 year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the DHS's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's

internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, 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 of the DHS, as of June 30, 2013, and the respective changes in financial position, and the respective budgetary comparison for the General Fund and Special Revenue Funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 9 through 19 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the DHS's basic financial statements. The schedule of expenditures of federal awards as required by the Office of Management and Budget and Circular A-133, Audits of States, Local Governments and Non-Profit Organizations is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

KMH LLP

KMH LLP

Honolulu, Hawaii
March 24, 2014

Department of Human Services

State of Hawaii

Management Discussion and Analysis
June 30, 2013

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, 2013. 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 position includes all of the assets and liabilities of the DHS, with the difference between the two reported as net position. This statement is similar to that of the balance sheet of a private-sector business. Over time, increases or decreases in net position 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 position changed during the fiscal year. All changes in net position 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).

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Management Discussion and Analysis (continued)

June 30, 2013

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.

**Department of Human Services
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Management Discussion and Analysis (continued)
June 30, 2013

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE FINANCIAL STATEMENTS

The following table presents a condensed government-wide statement of net position of the DHS as of June 30, 2013 and 2012.

Condensed Statement of Net Position

	2013	2012
Current Assets	\$ 239,269,500	\$ 155,624,930
Capital Assets, net	60,897,413	27,761,439
Total assets	<u>\$ 300,166,913</u>	<u>\$ 183,386,369</u>
Current Liabilities	246,924,188	124,229,810
Non-current Liabilities	11,874,001	10,071,832
Total liabilities	<u>258,798,189</u>	<u>134,301,642</u>
Net Position:		
Invested in capital assets	60,897,413	27,761,439
Restricted	1,948,550	1,863,184
Unrestricted	(21,477,239)	19,460,104
Total net position	<u>41,368,724</u>	<u>49,084,727</u>
Total liabilities and net position	<u>\$ 300,166,913</u>	<u>\$ 183,386,369</u>

As noted earlier, an analysis of net position 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, 2013, the combined net position of the DHS decreased by approximately \$7.7 million.

The unrestricted net position of the DHS was approximately (\$21.5) million as of June 30, 2013. The largest liability as of June 30, 2013, is the estimated amount of medical assistance service provided as of June 30, 2013, for which the related claims and capitation fees will be processed and paid subsequently. Of the estimated \$159.8 million of medical assistance payable, the State's share of these costs is approximately \$70.2 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 approximately \$15.8 million as of June 30, 2013, 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, 2013.

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Management Discussion and Analysis (continued)
June 30, 2013

The DHS reported a total of approximately \$60.9 million in net position invested in capital assets as of June 30, 2013. 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, 2013.

The changes in the net position 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 position focuses on the cost of services and who provides the funds to pay for the costs.

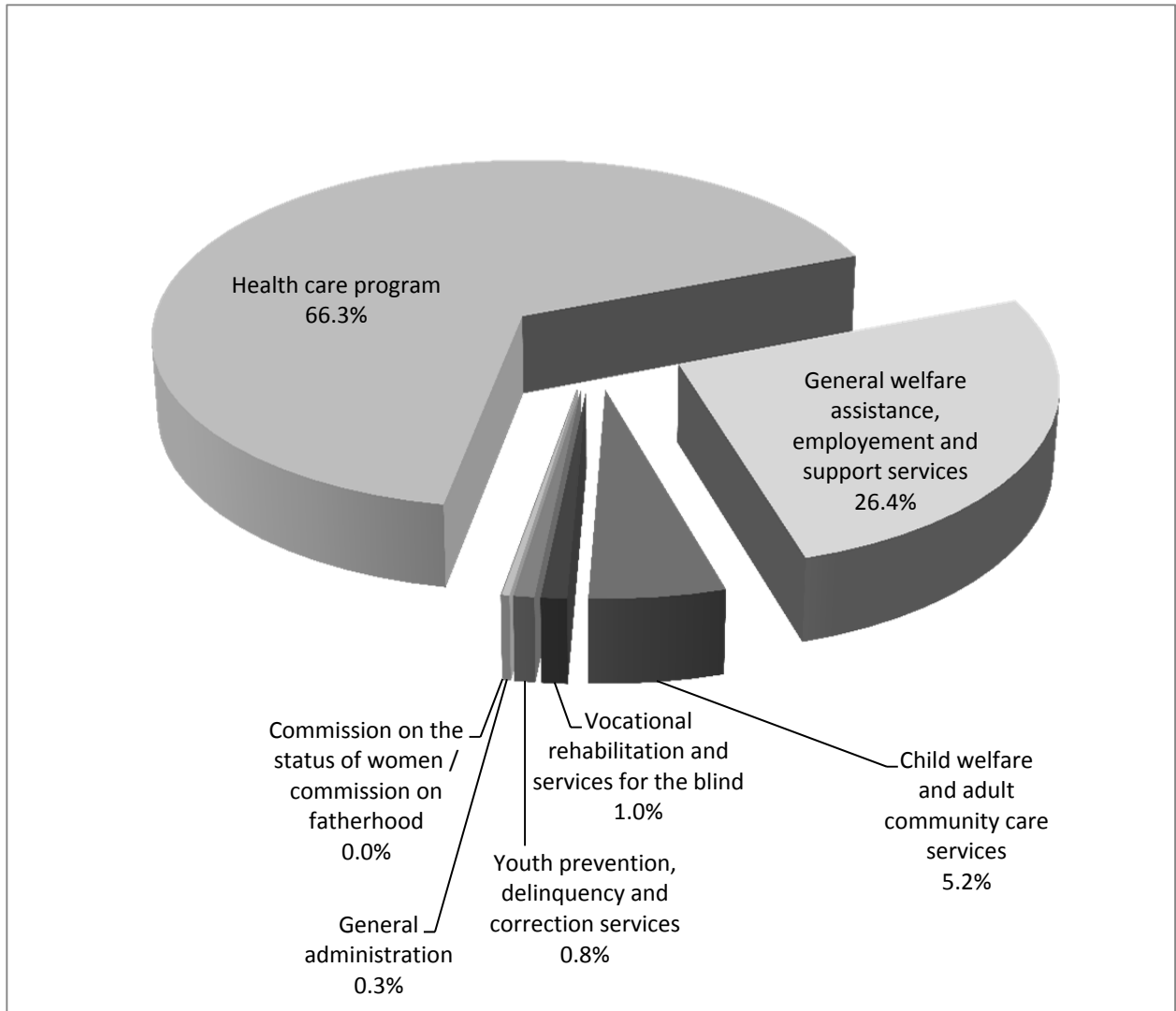
Changes in Net Position

	2013	2012	Percent Change
Revenues:			
Program revenues	\$ 1,676,355,166	\$ 1,462,025,145	14.66%
General revenues	1,124,231,705	1,069,699,460	5.10%
Total revenues	<u>2,800,586,871</u>	<u>2,531,724,605</u>	10.62%
Expenses:			
Health care programs	1,862,055,632	1,614,963,450	15.30%
General welfare assistance, employment and support services	742,090,442	698,005,474	6.32%
Child welfare and adult community care services	144,836,589	137,768,737	5.13%
Vocational rehabilitation and services for the blind	26,755,377	25,207,510	6.14%
Youth prevention, delinquency and correction services	22,693,332	18,135,099	25.13%
General administration	9,508,710	9,800,155	(2.97)%
Commission on the status of women / commission on fatherhood	144,806	101,469	42.71%
Total expenses	<u>2,808,084,888</u>	<u>2,503,981,894</u>	12.14%
Change in net position, before transfers	<u>\$ (7,498,017)</u>	<u>\$ 27,742,711</u>	

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Management Discussion and Analysis (continued)
June 30, 2013

The total cost of all programs and services was approximately \$2.8 billion, a 12.14% increase from the prior fiscal year. Health care and general welfare assistance programs comprised 66.3% and 26.4%, respectively, of the total costs. The following chart presents each major activity as a percent of the total cost of all DHS activities:

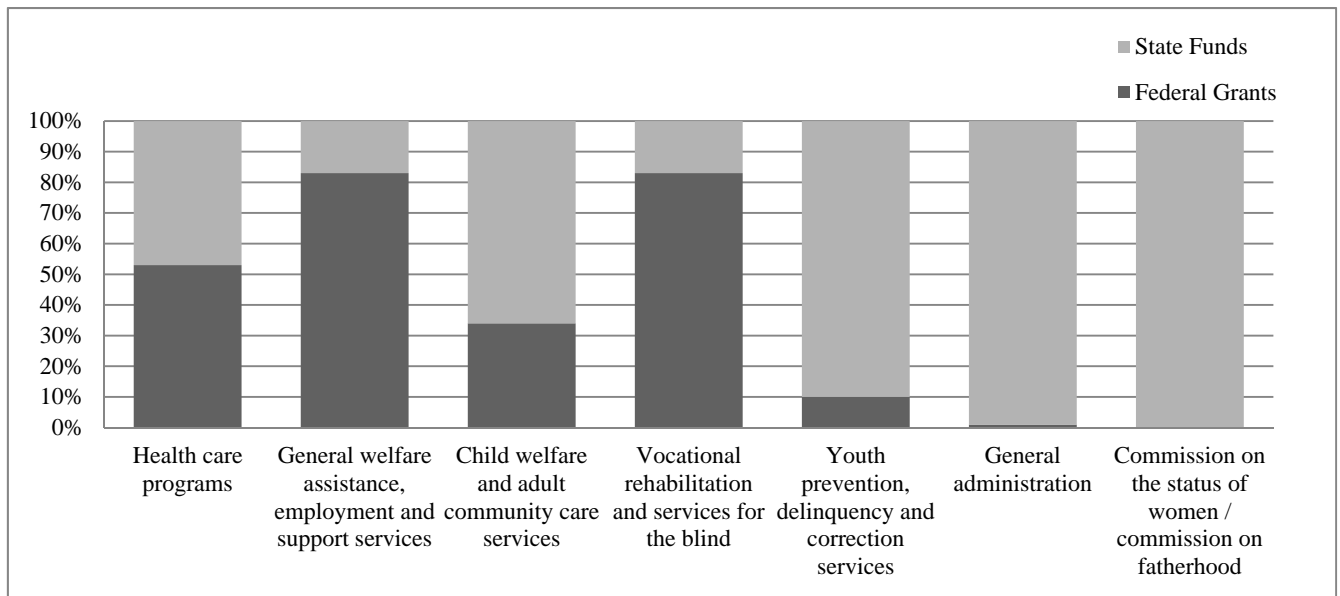


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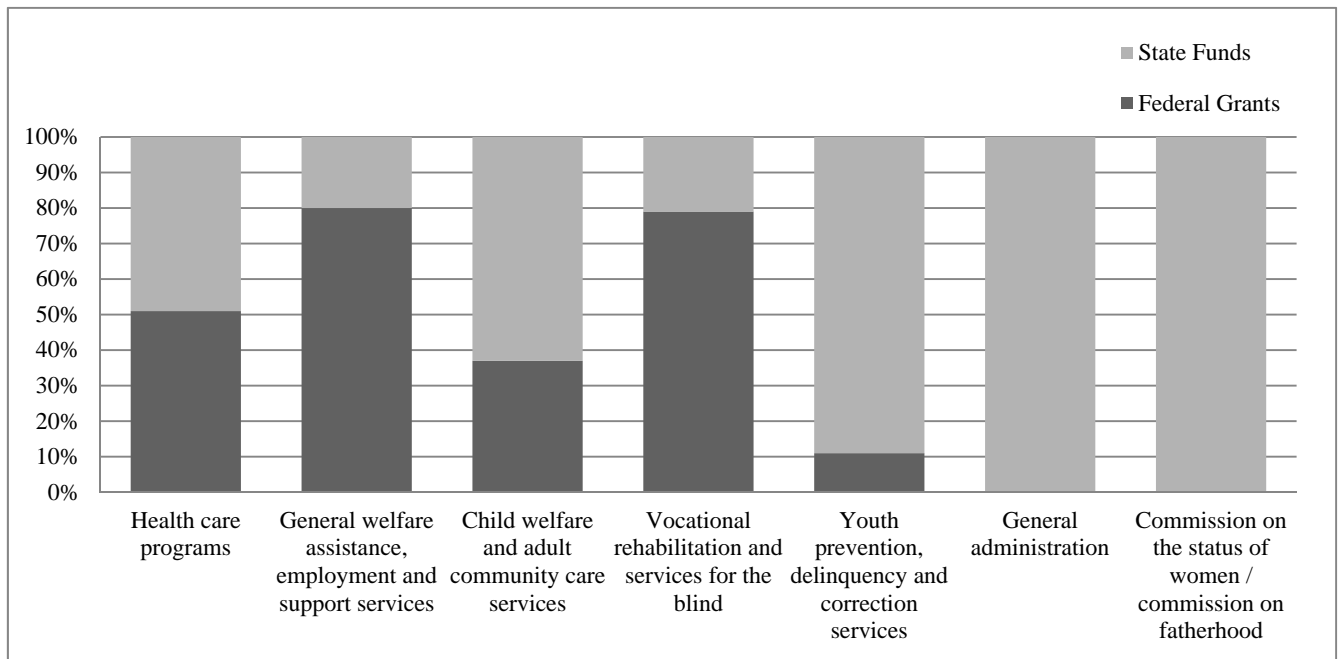
Management Discussion and Analysis (continued)
June 30, 2013

Program revenues consist primarily of operating grants from the federal government. Revenues from these federal grants paid for 59.7% 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, 2013 and 2012:

Fiscal Year 2013



Fiscal Year 2012



**Department of Human Services
State of Hawaii**

Management Discussion and Analysis (continued)
June 30, 2013

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 an accrual basis increased by \$336 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 \$281 million or 17.42% and \$44 million or 6.31%, respectively. For the Health Care program, medical assistance increased due to a rise in client enrollment and an increase in capitation rates. Also the construction of the new health care eligibility system (Kolea) started in fiscal year 2013. The increase in the costs for the general welfare assistance, employment and support service programs is due to the federal change in Supplemental Nutrition Assistance Program (SNAP) eligibility criteria, benefit levels and an increase in SNAP clients for fiscal year 2013.

At June 30, 2013, the total governmental fund balance of the DHS consisted of unassigned, committed, and restricted fund balance of approximately (\$5.7) million, \$1.5 million, and \$0.5 million, respectively. The unassigned fund balance of the general fund totaling (\$5.7) million is principally comprised of encumbrances for program services that were incurred as of June 30, 2013. The committed fund balance of the special revenue funds totaling \$1.5 million is principally the result of amounts that are limited by the state law for specific use.

The following table presents total revenues and expenditures of the governmental funds of the DHS for the fiscal years ended June 30, 2013 and 2012:

	2013	2012	Percent Change
Revenues:			
State allotted appropriations	\$ 1,104,483,790	\$ 1,050,382,743	5.15%
Intergovernmental revenues	1,676,355,166	1,462,025,145	14.66%
Non-imposed employee fringe benefits	19,747,915	19,316,717	2.23%
Total	<u>\$ 2,800,586,871</u>	<u>\$ 2,531,724,605</u>	10.62%

**Department of Human Services
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Management Discussion and Analysis (continued)
June 30, 2013

	<u>2013</u>	<u>2012</u>	<u>Percent Change</u>
Expenditures:			
Health care programs	\$ 1,895,933,439	\$ 1,614,636,214	17.42%
General welfare assistance, employment and support services	741,234,762	697,250,642	6.31%
Child welfare and adult community care services	144,444,717	137,749,494	4.86%
Vocational rehabilitation and services for the blind	26,639,465	25,116,525	6.06%
Youth prevention, delinquency and correction services	21,973,703	19,632,547	11.92%
General administration	9,622,295	9,918,784	(2.99)%
Commission on the status of women / commission on fatherhood	138,312	101,469	36.31%
Total	<u>\$ 2,839,986,693</u>	<u>\$ 2,504,105,675</u>	13.41%

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:

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual on Budgetary Basis</u>	<u>Variance Favorable (Unfavorable)</u>
Health care programs	\$ 873,183,350	\$ 872,320,462	\$ 872,136,972	\$ 183,490
General welfare assistance, employment and support services	132,237,543	128,800,642	127,160,772	1,639,870
Child welfare and adult community care services	94,693,750	94,337,923	90,309,106	4,028,817
Youth prevention, delinquency and correction services	18,161,981	18,063,860	17,774,624	289,236
General administration	7,156,099	7,148,294	7,146,445	1,849
Vocational rehabilitation and services for the blind	3,957,234	3,759,372	3,753,527	5,845
Commission on the status of women/commission on fatherhood	155,084	147,330	109,446	37,884
	<u>\$ 1,129,545,041</u>	<u>\$ 1,124,577,883</u>	<u>\$ 1,118,390,892</u>	<u>\$ 6,186,991</u>

**Department of Human Services
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Management Discussion and Analysis (continued)
June 30, 2013

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

The majority of the savings for the General Welfare Assistance, Employment and Support Services programs were due to reimbursements at the end of the fiscal year received for the General Assistance and Aged, Blind and Disabled Programs. Because of the late reception of these funds, the programs were not able to utilize them. For Child Welfare and Adult Community Care Services, the savings were due to vacancies, lower number of foster children, and a lower than anticipated amount of clients in residential care facilities. The amounts expended in comparison to the amount budgeted appears favorable.

CAPITAL ASSETS

As of June 30, 2013 and 2012, the cost basis of capital assets, net of accumulated depreciation, used by the DHS are presented in the table below. Approximately \$34.4 million of capital assets were added in the fiscal year ended June 30, 2013. The increase in capital assets is due to system upgrade for the implementation of the Affordable Care Act. Annual depreciation totaling approximately \$2 million decreased the net cost basis during the fiscal year ended June 30, 2013.

Capital Assets, Net of Depreciation

	<u>2013</u>	<u>2012</u>
Depreciable Assets:		
State office buildings and improvements	\$ 13,798,199	\$ 13,870,379
Building and improvements for the Office of Youth Services	12,149,115	12,937,757
Total buildings and improvements	<u>25,947,314</u>	<u>26,808,136</u>
Furniture, equipment and vehicles	617,263	953,297
Non-depreciable Assets:		
Land	6	6
Software under development	34,332,830	-
Total	<u>\$ 60,897,413</u>	<u>\$ 27,761,439</u>

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.

Department of Human Services State of Hawaii

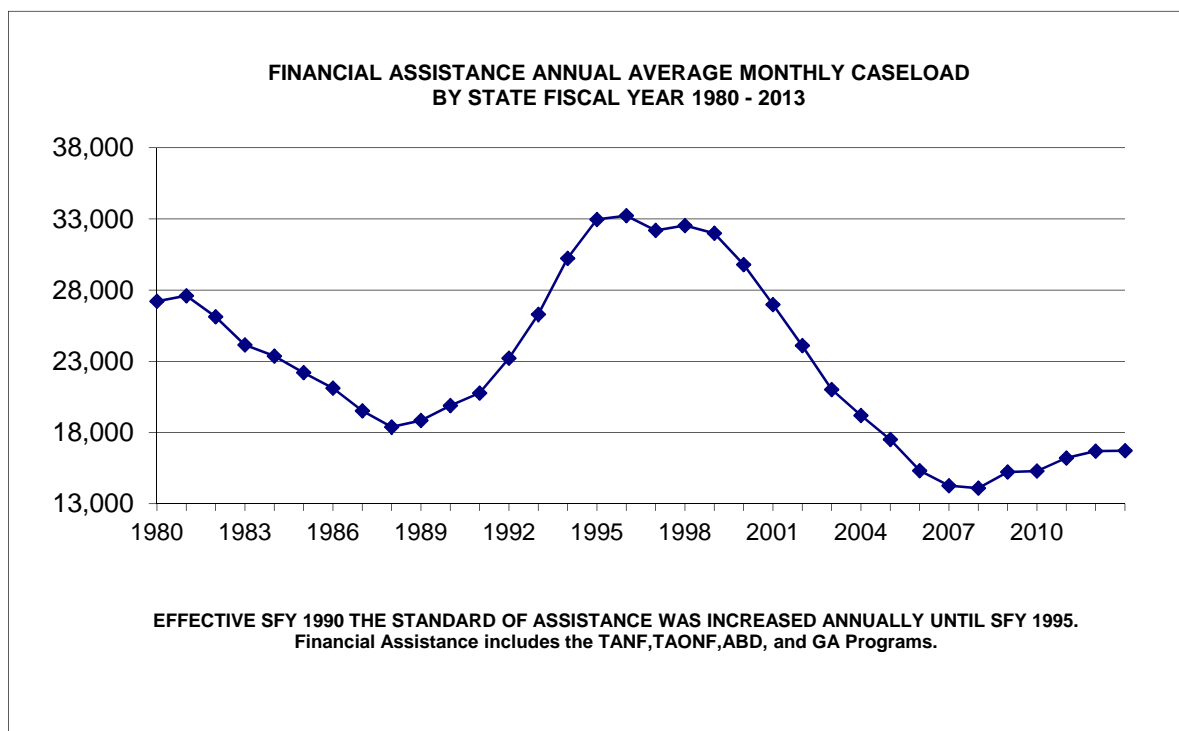
Management Discussion and Analysis (continued)
June 30, 2013

ECONOMIC FACTORS

There was only nominal increase in average monthly financial assistance caseload from state fiscal year 2012 to 2013, from 16,697 to 16,722 respectively. This was an increase of only 25 cases for the period ending June 2013. The number of individuals receiving financial assistance decreased during this period. In June 2012, a total of 35,265 individuals in Hawaii were receiving financial assistance as compared to 33,283 in June 2013, a decrease of 1,982 or -5.62% (see figure 2). It appears that an improved economy may be contributing to the decreased need for financial assistance. However, it may be too early to conclude that the number of individuals receiving financial assistance will continue to trend downward in the future.

Over the most recent 2013 fiscal year, the average number of individuals in Hawaii receiving Supplemental Nutrition Assistance Program (SNAP), formerly known as Food Stamp Program, benefits was 187,062. This was an increase of 14,386 individuals or 8.3% over the previous 2012 fiscal year. At the federal level, SNAP eligibility requirements were broadened which allowed more individuals to qualify for SNAP benefits, even in an improving economy. For Hawaii, these broadened requirements include no limit on assets for SNAP-eligible households and raising the dollar limits on households' gross monthly income to 185% of the federal poverty level. However, after a number of years of double-digit percentage increases, SNAP participation growth may be flattening out. Additionally, recent congressional decision-making which reduces SNAP funding, may affect the number of individuals qualifying for SNAP benefits in Hawaii.

Figure 1.



**Department of Human Services
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Management Discussion and Analysis (continued)
June 30, 2013

Figure 2.

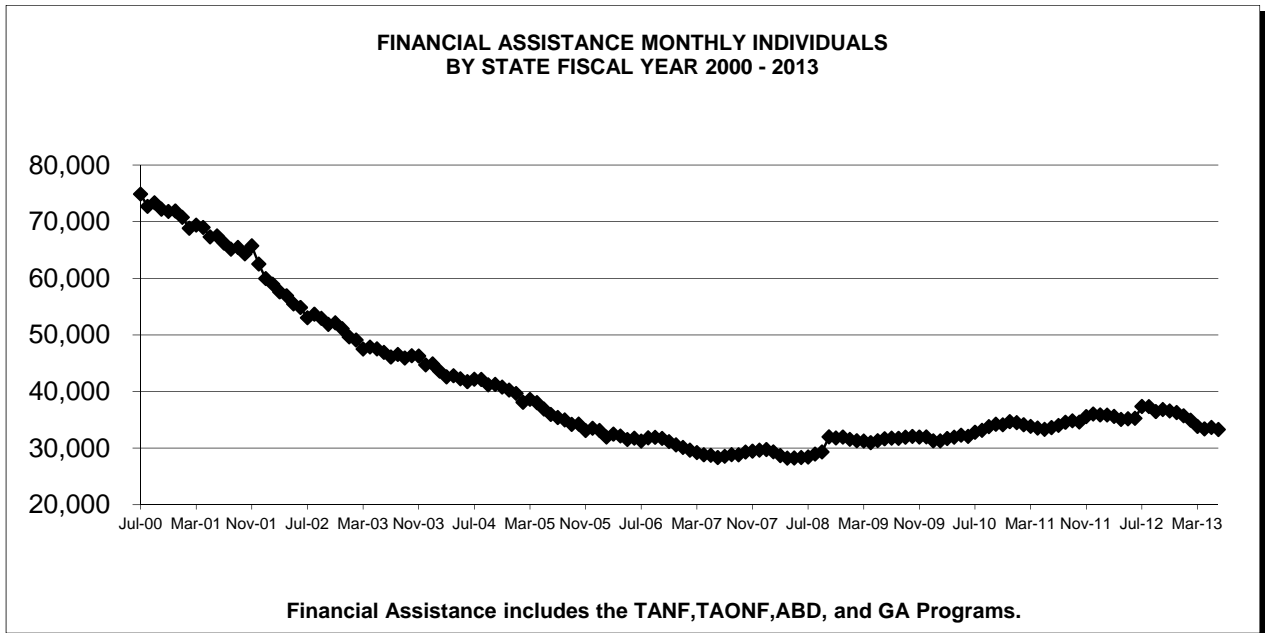
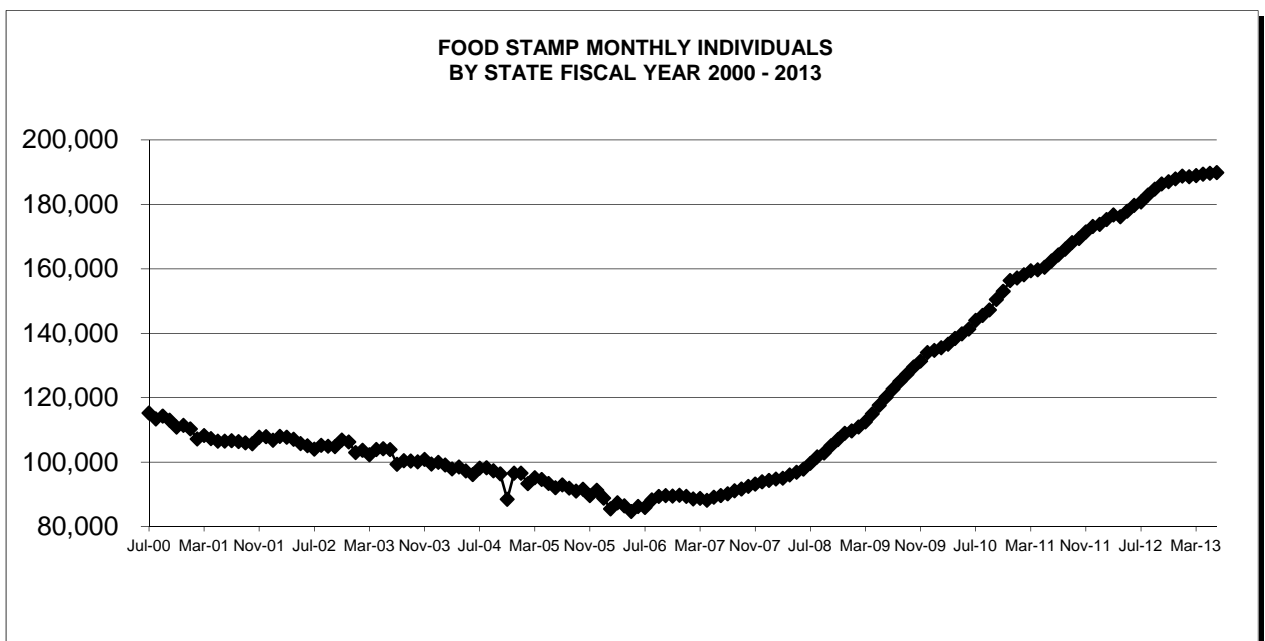


Figure 3.



**Department of Human Services
State of Hawaii**

Statement of Net Position
June 30, 2013

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash and Cash Equivalents	\$ 133,047,289
Receivables	24,943,863
Due from Other Governments	<u>81,278,348</u>
Total current assets	239,269,500
Capital Assets, Net of Accumulated Depreciation	<u>60,897,413</u>
Total assets	<u><u>\$ 300,166,913</u></u>
<u>Liabilities</u>	
Vouchers Payable	\$ 41,269,217
Accrued Wages and Employee Benefits Payable	7,163,612
Due to State General Fund	34,797,359
Accrued Medical Assistance Payable	159,762,000
Accrued Compensated Absences	<u>3,932,000</u>
Total current liabilities	246,924,188
Accrued Compensated Absences, Less Current Portion	<u>11,874,001</u>
Total liabilities	<u><u>258,798,189</u></u>
<u>Net Position</u>	
Net Investment in Capital Assets	60,897,413
Restricted	1,948,550
Unrestricted	<u>(21,477,239)</u>
Total net position	<u>41,368,724</u>
Total liabilities and net position	<u><u>\$ 300,166,913</u></u>

See accompanying notes to the basic financial statements.

**Department of Human Services
State of Hawaii**

Statement of Activities
For the Fiscal Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
Governmental Activities:				
Health care programs	\$ 1,862,055,632	\$ -	\$ 989,689,443	\$ (872,366,189)
General welfare assistance, employment and support services	742,090,442	-	612,751,797	(129,338,645)
Child welfare and adult community care services	144,836,589	-	49,341,208	(95,495,381)
Vocational rehabilitation and services for the blind	26,755,377	-	22,176,855	(4,578,522)
Youth prevention, delinquency and correction services	22,693,332	-	2,280,590	(20,412,742)
General administration	9,508,710	-	115,273	(9,393,437)
Commission on the status of women / commission on fatherhood	144,806	-	-	(144,806)
Total governmental activities	<u>\$ 2,808,084,888</u>	<u>\$ -</u>	<u>\$ 1,676,355,166</u>	<u>\$ (1,131,729,722)</u>
General Revenues:				
				\$ 1,104,483,790
				19,747,915
				<u>1,124,231,705</u>
				(217,986)
				<u>(7,716,003)</u>
				<u>49,084,727</u>
				<u>\$ 41,368,724</u>

See accompanying notes to the basic financial statements.

**Department of Human Services
State of Hawaii**

Balance Sheet – Governmental Funds
June 30, 2013

	<u>General</u>	<u>Med-QUEST Special Revenue Fund</u>	<u>Human Services Special Revenue Fund</u>	<u>Total</u>
ASSETS:				
Cash and cash equivalents	\$ 70,578,801	\$ 22,974,695	\$ 39,493,793	\$ 133,047,289
Receivables	12,080,210	11,966,653	897,000	24,943,863
Due from other funds	32,985,870	-	-	32,985,870
Due from other governments	-	91,969,060	-	91,969,060
Total assets	<u>\$ 115,644,881</u>	<u>\$ 126,910,408</u>	<u>\$ 40,390,793</u>	<u>\$ 282,946,082</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Vouchers payable	\$ 11,603,038	\$ 20,333,199	\$ 9,332,980	\$ 41,269,217
Accrued wages and employee benefits payable	4,718,362	727,155	1,718,095	7,163,612
Due to other funds	-	16,285,414	16,700,456	32,985,870
Due to other governments	-	-	10,690,712	10,690,712
Due to State general fund	34,797,359	-	-	34,797,359
Accrued medical assistance payable	70,197,360	89,564,640	-	159,762,000
Total liabilities	<u>121,316,119</u>	<u>126,910,408</u>	<u>38,442,243</u>	<u>286,668,770</u>
FUND BALANCES:				
Restricted	-	-	495,672	495,672
Committed	-	-	1,452,878	1,452,878
Unassigned	(5,671,238)	-	-	(5,671,238)
Total fund balances	<u>(5,671,238)</u>	<u>-</u>	<u>1,948,550</u>	<u>(3,722,688)</u>
Total liabilities and fund balances	<u>\$ 115,644,881</u>	<u>\$ 126,910,408</u>	<u>\$ 40,390,793</u>	<u>\$ 282,946,082</u>

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 Position
June 30, 2013

Total Fund Balances - Governmental Funds			\$ (3,722,688)
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.			
Capital assets:			
Governmental capital assets	122,410,775		
Less accumulated depreciation	<u>(61,513,362)</u>	60,897,413	
Accrued compensated absences are not due in the current period and, therefore, are not reported in the governmental funds.			<u>(15,806,001)</u>
Net Position of Governmental Activities			<u><u>\$ 41,368,724</u></u>

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
For the Fiscal Year Ended June 30, 2013

	<u>General</u>	<u>Med-Quest Special Revenue Fund</u>	<u>Human Services Special Revenue Fund</u>	<u>Total</u>
REVENUES:				
State-allotted appropriations	\$ 1,104,483,790	\$ -	\$ -	\$ 1,104,483,790
Intergovernmental	-	989,689,443	686,665,723	1,676,355,166
Nonimposed employee fringe benefits	19,747,915	-	-	19,747,915
	<u>1,124,231,705</u>	<u>989,689,443</u>	<u>686,665,723</u>	<u>2,800,586,871</u>
EXPENDITURES:				
Health care programs	906,243,996	989,689,443	-	1,895,933,439
General welfare assistance, employment and support services	128,425,042	-	612,809,720	741,234,762
Child welfare and adult community care services	95,066,462	-	49,378,255	144,444,717
Vocational rehabilitation and services for the blind	4,643,155	-	21,996,310	26,639,465
Youth prevention, delinquency and correction services	19,693,113	-	2,280,590	21,973,703
General administration	9,506,813	-	115,482	9,622,295
Commission on the status of women / commission on fatherhood	138,312	-	-	138,312
	<u>1,163,716,893</u>	<u>989,689,443</u>	<u>686,580,357</u>	<u>2,839,986,693</u>
(DEFICIENCY) EXCESS OF REVENUES (UNDER) OVER EXPENDITURES	(39,485,188)	-	85,366	(39,399,822)
OTHER FINANCING SOURCES --				
TRANSFERS OUT	<u>(217,986)</u>	<u>-</u>	<u>-</u>	<u>(217,986)</u>
NET CHANGE IN FUND BALANCES	(39,703,174)	-	85,366	(39,617,808)
FUND BALANCES AT JULY 1, 2012	<u>34,031,936</u>	<u>-</u>	<u>1,863,184</u>	<u>35,895,120</u>
FUND BALANCES AT JUNE 30, 2013	<u><u>\$ (5,671,238)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,948,550</u></u>	<u><u>\$ (3,722,688)</u></u>

See accompanying notes to the basic financial statements.

**Department of Human Services
State of Hawaii**

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances to the Statement of Activities
For the Fiscal Year Ended June 30, 2013

Net Change in Fund Balances - Total Governmental Funds \$ (39,617,808)

**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	35,154,715	
Add current year depreciation and other changes	<u>(2,018,741)</u>	33,135,974

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.

(1,234,169)

Change in Net Position - Governmental Activities

\$ (7,716,003)

See accompanying notes to the basic financial statements.

**Department of Human Services
State of Hawaii**

General Fund
Statement of Revenues and Expenditures - Budget and Actual
For the Fiscal Year Ended June 30, 2013

	<u>Original</u>	<u>Final</u>	<u>Actual on Budgetary Basis</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES --				
State allotments	\$ 1,129,545,041	\$ 1,124,577,883	\$ 1,093,969,823	\$ (30,608,060)
EXPENDITURES:				
Health care programs	873,183,350	872,320,462	872,136,972	183,490
General welfare assistance, employment and support services	132,237,543	128,800,642	127,160,772	1,639,870
Child welfare and adult community care services	94,693,750	94,337,923	90,309,106	4,028,817
Youth prevention, delinquency and correction services	18,161,981	18,063,860	17,774,624	289,236
General administration	7,156,099	7,148,294	7,146,445	1,849
Vocational rehabilitation and services for the blind	3,957,234	3,759,372	3,753,527	5,845
Commission on the status of women / commission on fatherhood	155,084	147,330	109,446	37,884
	<u>1,129,545,041</u>	<u>1,124,577,883</u>	<u>1,118,390,892</u>	<u>6,186,991</u>
Deficiency of revenues under expenditures	<u>-</u>	<u>-</u>	<u>(24,421,069)</u>	<u>(24,421,069)</u>
OTHER FINANCING SOURCES --				
TRANSFERS OUT	<u>-</u>	<u>-</u>	<u>(217,986)</u>	<u>(217,986)</u>
	<u>-</u>	<u>-</u>	<u>(217,986)</u>	<u>(217,986)</u>
DEFICIENCY OF REVENUES AND OTHER SOURCES UNDER EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (24,639,055)</u>	<u>\$ (24,639,055)</u>

See accompanying notes to the basic financial statements.

**Department of Human Services
State of Hawaii**

Special Revenue Funds
Statement of Revenues and Expenditures - Budget and Actual
For the Fiscal Year Ended June 30, 2013

	<u>Original</u>	<u>Final</u>	<u>Actual on Budgetary Basis</u>		<u>Variance Favorable (Unfavorable)</u>
			<u>Med-QUEST Special Revenue Fund</u>	<u>Human Services Special Revenue Fund</u>	
REVENUES --					
Intergovernmental revenues:					
Med-QUEST	\$ 927,923,284	\$ 927,923,284	\$ 937,145,741	\$ -	\$ 9,222,457
Human services	293,414,947	293,414,947	-	188,214,883	(105,200,064)
	<u>1,221,338,231</u>	<u>1,221,338,231</u>	<u>937,145,741</u>	<u>188,214,883</u>	<u>(95,977,607)</u>
EXPENDITURES:					
Health care programs	927,923,284	927,923,284	926,729,072	-	1,194,212
General welfare assistance, employment and support services	186,829,243	186,829,243	-	113,817,795	73,011,448
Child welfare and adult community care services	66,309,907	66,309,907	-	46,062,742	20,247,165
Vocational rehabilitation and services for the blind	34,863,741	34,863,741	-	20,867,112	13,996,629
Youth prevention, delinquency and correction services	3,653,524	3,653,524	-	2,833,492	820,032
General administration	1,758,532	1,758,532	-	1,713,144	45,388
	<u>1,221,338,231</u>	<u>1,221,338,231</u>	<u>926,729,072</u>	<u>185,294,285</u>	<u>109,314,874</u>
Excess of revenues over expenditures	<u>-</u>	<u>-</u>	<u>10,416,669</u>	<u>2,920,598</u>	<u>13,337,267</u>
OTHER FINANCING SOURCES (USES):					
Transfers in	-	-	-	3,365,318	3,365,318
Transfers out	-	-	(3,365,318)	-	(3,365,318)
	<u>-</u>	<u>-</u>	<u>(3,365,318)</u>	<u>3,365,318</u>	<u>-</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,051,351</u>	<u>\$ 6,285,916</u>	<u>\$ 13,337,267</u>

See accompanying notes to the basic financial statements.

**Department of Human Services
State of Hawaii**

Fiduciary Funds
Statement of Fiduciary Net Assets
June 30, 2013

	<u>Agency Fund</u>	<u>Private Purpose Trust Funds</u>
ASSETS --		
Cash	\$ 4,996,426	\$ 65,935
Total assets	<u>\$ 4,996,426</u>	<u>\$ 65,935</u>
LIABILITIES:		
Due to individuals	\$ 965,872	\$ -
Due to others	4,030,554	-
Total liabilities	<u>\$ 4,996,426</u>	-
NET ASSETS - HELD IN TRUST		<u>\$ 65,935</u>

See accompanying notes to the basic financial statements.

**Department of Human Services
State of Hawaii**

Fiduciary Funds
Statement of Changes in Fiduciary Net Assets
June 30, 2013

	Private Purpose Trust Funds
Additions --	
Donations	\$ 6,650
Total additions	<u>6,650</u>
Deductions --	
Other	<u>12,570</u>
Total deductions	<u>12,570</u>
CHANGES IN NET ASSETS	(5,920)
NET ASSETS AT JULY 1, 2012	<u>71,855</u>
NET ASSETS AT JUNE 30, 2013	<u><u>\$ 65,935</u></u>

See accompanying notes to the basic financial statements.

Department of Human Services State of Hawaii

Notes to Financial Statements
June 30, 2013

1. 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 Supplemental Nutrition Assistance Program (SNAP) - formerly known

Department of Human Services

State of Hawaii

Notes to Financial Statements
June 30, 2013

1. Financial Reporting Entity (continued)

as the Food Stamp Program, helps to ensure that no one goes hungry. The First-To-Work, 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. In 2011, the state homeless programs previously administered by the Hawaii Public Housing Authority, was transferred to the Division. The Division's operations are reported in the general, special revenue, and agency funds.

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

Department of Human Services State of Hawaii

Notes to Financial Statements
June 30, 2013

1. Financial Reporting Entity (continued)

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. Youths' 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 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

Department of Human Services State of Hawaii

Notes to Financial Statements
June 30, 2013

1. Financial Reporting Entity (continued)

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

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.

Department of Human Services

State of Hawaii

Notes to Financial Statements
June 30, 2013

2. 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.

a. Basis of Presentation

The government-wide financial statements, which are the statement of net position 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.

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.

Department of Human Services State of Hawaii

Notes to Financial Statements
June 30, 2013

2. Significant Accounting Policies (continued)

a. Basis of Presentation (continued)

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's fiduciary fund is as follows:

i. 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 and report the proceeds of specific revenue sources that are legally restricted or committed to expenditure for specific purposes other than debt service or capital projects. 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.

ii. 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.

Department of Human Services

State of Hawaii

Notes to Financial Statements
June 30, 2013

2. Significant Accounting Policies (continued)

b. 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 do not constitute expenditures or liabilities.

Department of Human Services

State of Hawaii

Notes to Financial Statements
June 30, 2013

2. Significant Accounting Policies (continued)

b. Measurement Focus and Basis of Accounting (continued)

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.

c. Use of Estimates

The preparation of the basic financial statements in conformity with GAAP 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.

d. 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.

e. 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.

**Department of Human Services
State of Hawaii**

Notes to Financial Statements
June 30, 2013

2. Significant Accounting Policies (continued)

e. Capital Assets (continued)

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:

	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

f. 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.

g. 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.

Department of Human Services State of Hawaii

Notes to Financial Statements
June 30, 2013

2. Significant Accounting Policies (continued)

h. 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.

i. Operating Grants and Contributions

Federal grants and assistance awards are recorded as intergovernmental receivables and revenues when all eligibility requirements have been satisfied.

j. Intrafund and Interfund Transactions

Significant transfers of financial resources between activities included within the same fund are offset within that fund.

k. Fund Balance

In the governmental fund financial statements, fund balances are classified using a hierarchy based on the extent to which the DHS is bound to follow constraints on the specific purposes for which amounts in the funds may be spent.

The DHS reports the following classifications:

Restricted Fund Balance - Restricted fund balances are restricted to specific purposes which are usually imposed by external parties such as grantors, contributors, or laws or regulations of other governments.

Committed Fund Balance - Committed fund balances are amounts that can only be used for specific purposes pursuant to formal action of the State Legislature.

Assigned Fund Balance - Assigned fund balances are amounts that are constrained by the State's intent to be used for specific purposes, but are neither restricted or committed. The State Legislature authorizes the amounts to specific purposes through the budgetary process. Assigned amounts within general fund include non-liquidated encumbrances at year end that are carried forward to the next fiscal year.

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Notes to Financial Statements
June 30, 2013

2. Significant Accounting Policies (continued)

k. Fund Balance (continued)

Unassigned Fund Balance - Unassigned fund balance is the residual classification for the General Fund. This classification represents General Fund balance that has not been assigned to other funds, and that has not been restricted or assigned to specific purposes within the General Fund.

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

l. Net Position

Net position 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 position. 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.

m. 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.

n. 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.

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Notes to Financial Statements
June 30, 2013

2. Significant Accounting Policies (continued)

n. Deferred Compensation Plan (continued)

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.

o. Recent Accounting Pronouncements

In March 2012, the GASB issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65). This Statement reclassifies, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as revenues and expenses, certain items that were previously reported as assets and liabilities. The provisions of GASB 65 are effective for periods beginning after December 15, 2012. Management is currently assessing the impact of this Statement on its financial position and results of operations and has not determined if the adoption will have a material effect on its financial statements.

In June 2012, GASB issued Statement No. 68 (GASB 68), *Accounting and Reporting for Pensions (an amendment of GASB Statement No. 27)*. GASB 68 amends the accounting guidance related to employers' accounting for pension plans administered through trusts or similar arrangements and requires the recognition of a liability for the employers' accumulated obligation for pension benefits. GASB 68 also provides additional guidance regarding the recognition of annual costs of pension benefits and revises the disclosure requirements for the notes to the financial statements and required supplementary information. GASB 68 will be effective for the DHS's financial statements for the year ending June 30, 2015. Management does not believe the adoption of this Statement will have a material effect on its financial statements.

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Notes to Financial Statements
June 30, 2013

2. Significant Accounting Policies (continued)

o. Recent Accounting Pronouncements (continued)

In April 2013, the GASB issued Statement No. 70, *Accounting and Reporting for Nonexchange Financial Guarantees*. This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. This Statement requires a government that has issued an obligation guaranteed in a nonexchange transaction to recognize revenue to the extent of the reduction in its guaranteed liabilities. This Statement also requires a government that is required to repay a guarantor for making a payment on a guaranteed obligation or legally assuming the guaranteed obligation to continue to recognize a liability until legally released as an obligor. The provisions of this Statement are effective for periods beginning after June 15, 2013. Management does not believe the adoption of this Statement will have a material effect on its financial statements.

3. 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 those estimates as compiled by the Council on Revenues and the Director of Finance. Budgeted expenditures are derived primarily from the Appropriations Act of 2011 (Act 164, SLH 2011), and from other authorizations contained in the State Constitution, Hawaii Revised Statutes, and other specific appropriation acts in various Session Laws of Hawaii (SLH).

All expenditures of these appropriated funds are made pursuant to the appropriations in the fiscal 2011 - 2013 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.

Department of Human Services

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Notes to Financial Statements
June 30, 2013

3. Budgeting and Budgetary Control (continued)

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, 2013, 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 cash basis of accounting except for the encumbrance of purchase orders and contract obligations (basis difference), which is a departure from GAAP.

The following schedule reconciles the budgetary amounts to the amounts presented in accordance with GAAP for the fiscal year ended June 30, 2013.

	General	Med QUEST	Human Services
Excess of revenues over (under) expenditures and other sources (uses) - actual on a budgetary basis	\$ (24,639,055)	\$ 7,051,351	\$ 6,285,916
Reserved for encumbrances at fiscal year-end	81,856,714	55,756,778	25,025,765
Expenditures for liquidation of prior fiscal year encumbrances	(41,994,863)	(51,225,226)	(28,815,696)
Net changes in liabilities	(9,985,570)	(20,043,604)	(9,061,981)
Net change in accrued medical assistance payable	(46,242,360)	(61,912,640)	-
Accruals related to federal reimbursements for program expenditures	(13,875,822)	17,824,879	(3,949,057)
Net change in other receivables	4,710,808	4,760	17,500
Difference for revenues recognized for GAAP purposes	10,466,974	52,543,702	10,582,919
Net change in fund balances - GAAP basis	<u>\$ (39,703,174)</u>	<u>\$ -</u>	<u>\$ 85,366</u>

Department of Human Services

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Notes to Financial Statements
June 30, 2013

4. Cash and Cash Equivalents

The State's Director of Finance is responsible for the safekeeping of all monies paid into the State Treasury. The 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 specific requirements of the State. Investment earnings are allocated to the Primary government based on its equity interest in the pooled monies. 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, auction rate securities 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.

a. 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.

b. 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, money market funds and student loan resource securities maintaining a Triple-A rating.

c. 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. The State also 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.

**Department of Human Services
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Notes to Financial Statements
June 30, 2013

4. Cash and Cash Equivalents (continued)

d. 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.

e. Cash in Bank

The DHS maintains cash in banks which are held separately from cash in the State Treasury. As of June 30, 2013, the carrying amount of total bank deposits was approximately \$560,000 and the corresponding bank balances which are represented were approximately \$671,000.

5. Receivables

Receivables of the DHS, net of an allowance for doubtful accounts, consisted of the following at June 30, 2013:

	<u>General</u>	<u>Med-QUEST</u>	<u>Human Services</u>
Welfare benefit overpayments	\$ 23,896,636	\$ 2,225,270	\$22,350,338
Drug rebate receivable	-	11,871,850	-
Medicaid providers receivable	8,718,150	-	-
QUEST premiums receivable	42,684	45,982	-
HDS overpayment receivable	1,703,308	-	-
Social Security interim assistance loans	580,770	-	-
CSEA receivable	113,523	-	-
	<u>35,055,071</u>	<u>14,143,102</u>	<u>22,350,338</u>
Less allowance for doubtful accounts:			
Welfare benefit overpayments	22,936,636	2,135,270	21,453,338
QUEST premiums receivable	38,225	41,179	-
	<u>22,974,861</u>	<u>2,176,449</u>	<u>21,453,338</u>
Receivables, net	<u>\$ 12,080,210</u>	<u>\$ 11,966,653</u>	<u>\$ 897,000</u>

Department of Human Services State of Hawaii

Notes to Financial Statements
June 30, 2013

6. Intefund Receivable and Payable

The general fund had a net receivable due from the special revenue funds totaling \$32,985,870 as of June 30, 2013, for federal reimbursements of program expenditures. The Med-QUEST and Human Services special revenue funds had a payable to the general fund totaling \$16,285,414 and \$16,700,456, respectively, as of June 30, 2013, for federal reimbursements of program expenditures.

7. Capital Assets

	<u>Balance</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Disposals</u>	<u>Net Transfers</u>	<u>Other</u>	<u>Balance</u> <u>June 30, 2013</u>
Depreciable Assets:						
Building and improvements	\$ 50,589,416	\$ -	\$ -	\$ -	\$ 811,204	\$ 51,400,620
Furniture and equipment	34,983,042	41,472	(150,732)	(36,283)	127,319	34,964,818
Motor vehicles	1,657,596	-	-	54,905	-	1,712,501
Non-Depreciable Assets:						
Land	6	-	-	-	-	6
Software under development	-	34,332,830	-	-	-	34,332,830
Total at historical cost	<u>87,230,060</u>	<u>34,374,302</u>	<u>(150,732)</u>	<u>18,622</u>	<u>938,523</u>	<u>122,410,775</u>
Less Accumulated Depreciation:						
Building and improvements	23,781,280	1,672,026	-	-	-	25,453,306
Furniture and equipment	34,072,385	314,293	(100,854)	(24,560)	127,319	34,388,583
Motor vehicles	1,614,956	32,422	-	24,095	-	1,671,473
Total accumulated depreciation	<u>59,468,621</u>	<u>2,018,741</u>	<u>(100,854)</u>	<u>(465)</u>	<u>127,319</u>	<u>61,513,362</u>
Capital Assets, net	<u>\$ 27,761,439</u>	<u>\$ 32,355,561</u>	<u>\$ (49,878)</u>	<u>\$ 19,087</u>	<u>\$ 811,204</u>	<u>\$ 60,897,413</u>

**Department of Human Services
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Notes to Financial Statements
June 30, 2013

7. Capital Assets (continued)

Depreciation expense for the fiscal year ended June 30, 2013 was charged to functions/programs of the DHS as follows:

	<u>Governmental Activities</u>
Health care programs	\$ 212,834
General welfare assistance, employment and support services	539,156
Child welfare and adult community care services	283,209
Vocational rehabilitation and services for the blind	51,861
Youth prevention, delinquency and correction services	820,828
General administration	<u>110,853</u>
	<u><u>\$ 2,018,741</u></u>

8. 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, 2013, was as follows:

	<u>Amount</u>
Balance at July 1, 2012	\$ 14,571,832
Additions	6,798,415
Reductions	<u>(5,564,246)</u>
Balance at June 30, 2013	15,806,001
Less current portion	<u>(3,932,000)</u>
	<u><u>\$ 11,874,001</u></u>

**Department of Human Services
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Notes to Financial Statements
June 30, 2013

9. Fund Balance

Fund balance constraints by purpose as of June 30, 2013 were as follows:

	General	Med-QUEST Special Revenue Fund	Human Services Special Revenue Fund	Total
Restricted:				
Child welfare and adult community care	\$ -	\$ -	\$ 464,899	\$ 464,899
General welfare assistance, employment and support services	-	-	22,788	22,788
Youth prevention, delinquency and correction	-	-	7,985	7,985
Total – restricted	-	-	495,672	495,672
Committed:				
Commission on the status of women / commission on fatherhood	-	-	5,285	5,285
Child welfare and adult community care	-	-	436,079	436,079
Vocation rehabilitation	-	-	1,011,514	1,011,514
Total – committed	-	-	1,452,878	1,452,878
Unassigned:				
Human services	(5,671,238)	-	-	(5,671,238)
Total – assigned	(5,671,238)	-	-	(5,671,238)
Total fund balances	\$ (5,671,238)	\$ -	\$ 1,948,550	\$ (3,722,688)

**Department of Human Services
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Notes to Financial Statements
June 30, 2013

10. 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, 2013, were as follows:

	<u>Balance July 1, 2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2013</u>
Assets --				
Cash	<u>\$ 1,468,383</u>	<u>\$ 129,427,701</u>	<u>\$ 125,899,658</u>	<u>\$ 4,996,426</u>
Liabilities --				
Due to individuals and others	<u>\$ 1,468,383</u>	<u>\$ 129,427,701</u>	<u>\$ 125,899,658</u>	<u>\$ 4,996,426</u>

11. Non-Imposed 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 \$19,748,000 for the fiscal year ended June 30, 2013, 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.

12. Leases

The DHS leases office facilities 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 approximate

**Department of Human Services
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Notes to Financial Statements
June 30, 2013

12. Leases (continued)

federal share of minimum future lease commitments for noncancelable operating leases as of June 30, 2013:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2014	\$ 1,663,000
2015	1,409,000
2016	922,000
2017	497,000
2018	373,000
2019 - 2023	<u>1,416,000</u>
	<u>\$ 6,280,000</u>

The DHS's federal share of rent expenditures for operating leases for the fiscal year ended June 30, 2013, amounted to approximately \$1,723,000, and is included in the accompanying financial statements.

13. 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. All contributions, benefits, and eligibility requirements are established by HRS Chapter 88 and can be amended by legislative action. The ERS issues an annual comprehensive financial report that is available to the public. The report may be obtained by writing to the ERS at City Financial Tower, 201 Merchant Street, Suite 1400, Honolulu, Hawaii 96813.

Prior to June 30, 1984, the plan consisted of only a contributory plan. In 1984, legislation was enacted to add a new noncontributory 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

Department of Human Services

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Notes to Financial Statements
June 30, 2013

13. Retirement Benefits (continued)

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. The benefit plan options are similar to the current contributory plan. Almost 58,000 current members, all members of the noncontributory plan and certain members of the contributory plan were eligible to join the new hybrid plan. Most of the new employees hired from July 1, 2006, were 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, 2013, 2012, and 2011 was paid from the State General Fund and totaled approximately \$7,034,000, \$7,075,000, and \$7,220,000, respectively. The DHS's federal share of pension benefits expense for the fiscal years ended June 30, 2013, 2012, and 2011 was approximately \$2,634,000, \$2,703,000, and \$2,563,000, respectively. The employer contribution rate for the fiscal years ended June 30, 2013, 2012, and 2011 was 15.50%, 14.70%, and 14.69%, respectively.

Department of Human Services State of Hawaii

Notes to Financial Statements
June 30, 2013

13. 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, 2013, was approximately \$6,913,000.

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

For employees hired after June 30, 1996 but before July 1, 2001, and who retire with fewer than 10 years of service, the State makes no contributions. 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 at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For those employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Retirees in this category can elect a family plan to cover dependents.

For employees hired on or after July 1, 2001, and who retire with fewer than 10 years of service, the State makes no contributions. 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 at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For those employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Only single plan coverage is provided for retirees in this category. Retirees can elect family coverage but must pay the difference.

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.

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Notes to Financial Statements
June 30, 2013

13. Retirement Benefits (continued)

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 were 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.

The EUTF issues an annual financial report that is available to the public. That report may be obtained by writing to the State of Hawaii Employer-Union Health Benefits Trust Fund at 201 Merchant Street, Suite 1520, Honolulu, Hawaii 96813.

14. 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 \$225 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

Department of Human Services State of Hawaii

Notes to Financial Statements
June 30, 2013

14. Risk Management (continued)

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 \$15 million.

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

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, 2013, 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, 2013, was approximately \$577,000.

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Notes to Financial Statements
June 30, 2013

15. Commitments and Contingencies

Encumbrances

Encumbrances as of June 30, 2013 were as follows:

<u>Fund</u>	<u>Amount</u>
General	\$ 81,856,714
Med-QUEST	55,756,778
Human Services	25,025,765
Total	<u>\$ 162,639,257</u>

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, 2013, accumulated sick leave was approximately \$41 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.

16. Related Party Transactions

The DHS had various amounts due to the State totaling \$34,797,359 as of June 30, 2013, which included federal reimbursements for program expenditures totaling \$27,270,761, receivables totaling \$7,369,402, and cash held outside of the State Treasury totaling \$157,196.

SUPPLEMENTARY INFORMATION

**Department of Human Services
State of Hawaii**

Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2013

	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		\$ 669,872	\$ 543,720
Temporary Assistance for Needy Families ²	93.558		65,355,199	8,347,350
Refugee and Entrant Assistance - State Administered Programs	93.566		26,297	-
Low-Income Home Energy Assistance	93.568		6,187,979	266,982
Child Care and Development Block Grant ²	93.575		19,483,927	4,428,628
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596		9,763,682	-
Chaffee Education and Training Vouchers Program (ETV)	93.599		157,365	-
Head Start Collaboration Grant	93.600		129,813	-
ARRA - Head Start	93.708		297,434	-
Family Connections Grant	93.605		70,218	-
Children's Justice Grants to States	93.643		89,289	-
Stephanie Tubbs Jones Child Welfare Services Program	93.645		1,232,320	309,950
Foster Care - Title IV-E	93.658		13,352,982	-
Foster Care ARRA - Title IV-E	93.658		2,577	-
Adoption Assistance	93.659		13,409,209	-
ARRA - Adoption Assistance	93.659		1,274	-
Adoption Incentive Payments	93.603		24,225	-
Guardianship Assistance	93.090		983,189	-
Social Services Block Grant ²	93.667		13,186,228	7,787,660
Child Abuse and Neglect State Grants	93.669		68,125	31,533
Family Violence Prevention and Services / Grants for Battered Women's Shelters - Grants to States and Indian Tribes	93.671		786,353	812,836
Chafee Foster Care Independence Program	93.674		392,709	392,159
Children's Health Insurance Program	93.767		21,778,928	-
State Survey and Certification of Health Care Providers	93.777		374,332	-
Medical Assistance Program	93.778		832,356,218	-
Medicaid Incentives for Prevention of Chronic Diseases	93.536		429,947	-
Total U.S. Department of Health and Human Services			\$ 1,000,609,691	\$ 22,920,818

**Department of Human Services
State of Hawaii**

Schedule of Expenditures of Federal Awards (continued)
For the Fiscal Year Ended June 30, 2013

	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		\$ 487,871,903	\$ -
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561		15,555,080	1,280,959
National School Lunch Program	10.555		86,367	-
School Breakfast Program	10.553		46,439	-
Total U.S. Department of Agriculture			503,559,789	1,280,959
U.S. Department of Justice:				
Juvenile Justice and Delinquency Prevention - Allocation to States	16.540		477,109	356,422
Title V - Delinquency Prevention program	16.548		14	-
Juvenile Accountability Block Grant	16.523		264,894	263,493
Crime Victim Assistance	16.575		152,885	-
Total U.S. Department of Justice			894,902	619,915
U.S. Department of Labor--				
Pass-through State Department of Labor and Industrial Relations Senior Community Service Employment Program	17.235		195,846	-
Total U.S. Department of Labor			195,846	-
U.S. Department of Education:				
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126		13,556,454	1,328,571
Independent Living - State Grants	84.169		268,698	567,176
Rehabilitation Services - Independent Living Services for Older Individuals Who are Blind	84.177		94,261	-
Supported Employment Services for Individuals with the most Significant Disabilities	84.187		200,700	362,700
Assistive Technology	84.224		477,915	-
Rehabilitation Training - State Vocational Rehabilitation Unit In-Service Training	84.265		20,988	-
Total U.S. Department of Education			\$ 14,619,016	\$ 2,258,447

**Department of Human Services
State of Hawaii**

Schedule of Expenditures of Federal Awards (continued)
For the Fiscal Year Ended June 30, 2013

	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		\$ 475,814	\$ -
Senior Companion Program	94.016		416,759	-
Total Corporation for National and Community Service			892,573	-
Social Security Administration --				
Social Security - Disability Insurance	96.001		6,604,447	-
Total Social Security Administration			6,604,447	-
U.S. Department of the Interior--				
Pass-through the State Governor's Office Economic, Social, Political Developments of the territories	15.875	Hawaii-CI-2011-1	5,614,371	-
Total U.S. Department of the Interior			5,614,371	-
U.S. Department of Housing and Urban Development:				
Emergency Solutions Grants Program	14.231		451,012	394,255
Housing Opportunities for Persons with AIDS	14.241		183,485	154,437
Homeless Prevention and Rapid Re-Housing Program Technical Assistance	14.257		128,109	-
Shelter Plus Care	14.238		1,877,799	1,010,283
Supportive Housing Program	14.235		199,053	61,943
Total U.S. Department of Housing and Urban Development			2,839,458	1,620,918
TOTAL FEDERAL EXPENDITURES			\$ 1,535,830,093	\$ 28,701,057

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

²Grant awards totaling \$17,890,000 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 (\$8,000,000).

³Expenditures represent assistance utilized through the Electronic Benefits Transfer System

PART II

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



A Hawaii Limited Liability Partnership

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

Independent Auditor's Report

Office of the Auditor
State of Hawaii

We have audited in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, 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 year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the DHS's basic financial statements, and have issued our report thereon dated March 24, 2014.

Internal Control Over Financial Reporting

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

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

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

timely basis. We considered the deficiency described in the accompanying *schedule of findings and questioned costs*, item 2013-01, to be material weakness. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying *schedule of findings and questioned costs* as items 2013-02 through 2013-13.

The DHS's Response to Findings

The DHS's responses to the findings identified in our audit are described in the accompanying *Schedule of Findings and Questioned Costs*. The DHS's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

KMH LLP

KMH LLP

Honolulu, Hawaii
March 24, 2014

PART III

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE**



A Hawaii Limited Liability Partnership

**Report on Compliance for Each Major Federal Program and Report on
Internal Control Over Compliance**

Independent Auditor's Report

Office of the Auditor
State of Hawaii:

Report on Compliance for Each Major Federal Program

We have audited the Department of Human Services of the State of Hawaii's (DHS) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the DHS's major federal programs for the year ended June 30, 2013. The DHS's major federal programs are identified in the summary of the auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the DHS's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the DHS's compliance.

Basis for Qualified Opinion on Medical Assistance Program, Vocational Rehabilitation, Shelter Plus Care, Child Care and Development Block Grant and Child Care Mandatory and Matching Funds of the Child Care and Development Fund, Low Income Home Energy Assistance and Social Services Block Grant

As described in Findings 2013-02 through 2013-13 in the accompanying *Schedule of Findings and Questioned Costs*, the DHS did not comply with requirements regarding the following:

Finding #	CFDA #	Program Name	Compliance Requirement
2013-02	93.778	Medical Assistance Program	Eligibility
2013-03	93.778	Medical Assistance Program	Eligibility
2013-04	93.778	Medical Assistance Program	Special tests and provision – ADP risk analysis and system security review
2013-05	93.778	Medical Assistance Program	Special tests and provision – Medicaid fraud control unit
2013-06	84.126	Vocational Rehabilitation	Allowable costs
2013-07	84.126	Vocational Rehabilitation	Eligibility
2013-08	14.238	Shelter Plus Care	Reporting
2013-09	93.575 and 93.596	Child Care and Development Block Grant and Child Care Mandatory and Matching Funds of the Child Care and Development Fund	Eligibility
2013-10	93.575 and 93.596	Child Care and Development Block Grant and Child Care Mandatory and Matching Funds of the Child Care and Development Fund	Reporting
2013-11	93.568	Low Income Home Energy Assistance	Eligibility
2013-12	93.667	Social Services Block Grant	Reporting
2013-13	93.667	Social Services Block Grant	Allowable costs, eligibility, earmarking

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

Qualified Opinion on Medical Assistance Program, Vocational Rehabilitation, Shelter Plus Care, Child Care and Development Block Grant, Low Income Home Energy Assistance and Social Services Block Grant

In our opinion, except for the noncompliance described in Basis for Qualified Opinion paragraphs, the DHS complied, in all material respects, with the types compliance requirements referred to above that could have a direct and material effect on the Medical Assistance Program, Vocational Rehabilitation, Shelter Plus Care, Child Care and Development Block Grant, Low Income Home Energy Assistance and Social Services Block Grant for the year ended June 30, 2013.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the DHS complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of the its other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed other instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2013-14. Our opinion on this major federal program is not modified with respect to this matter.

The DHS's responses to the noncompliance findings identified in our audit are described in the accompanying *Schedule of Findings and Questioned Costs*. The DHS's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the DHS is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the DHS's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major program and to test and report on internal control over compliance in accordance with OMB circular A-133, 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 was not designed to identify all deficiencies in internal control over compliance

that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2013-02 through 2013-13 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2013-15 through 2013-16 to be significant deficiencies.

The DHS's responses to the internal control over compliance findings identified in our audit are described in the accompanying *Schedule of Findings and Questioned Costs*. The DHS's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on these responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

KMH LLP

KMH LLP

Honolulu, Hawaii
March 24, 2014

PART IV

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs
June 30, 2013

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes None reported
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? Yes None reported

Type of auditor’s 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 Circular A-133? Yes No

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2013

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program</u>
14.238	Shelter Plus Care
84.126	Vocational Rehabilitation
93.090	Guardianship Assistance
93.568	Low Income Home Energy Assistance
93.575	Child Care and Development Block Grant
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund
93.658	Foster Care – Title IV-E
93.659	Adoption Assistance
93.667	Social Services Block Grant
93.778	Medical Assistance Program
96.001	Social Security – Disability Insurance (DI)

Dollar threshold used to distinguish between type A and type B programs: \$4,607,490

Auditee qualified as low-risk auditee? Yes No

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2013

Section II – Financial Statement Findings

Finding No.: 2013-01 Financial Statement Reporting

Type of Finding: Material Weakness

Criteria: In accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, fund financial statements should be prepared using the current financial resources measurement focus and the modified accrual basis of accounting. Under this focus/basis, revenues are recognized only to the extent that they are susceptible to accrual and liabilities are required to be recorded only to the extent that their repayment will require the use of expendable available financial resources.

Condition, cause and context: During our audit, we proposed and management accepted several audit adjustments in the following areas:

- Under accrual of vouchers payable of approximately \$22 million.
- Under accrual of medical assistance payable of approximately \$36 million.
- Under accrual of accounts receivable (drug rebate) of approximately \$12 million and a related under accrual of a payable to the State of approximately \$12 million.

We noted that management, in the process of preparing its financial statements, accrued amounts related to vouchers payable and medical assistance payable, however, the amounts were under accrued primarily due to changes in operations/circumstance that management did not consider.

We also noted that management did not consider an accrual for amounts related to the Medicaid drug rebate program. Management indicated that they had not considered this item when preparing the financial statements.

Effect: The under accrual of the amounts above resulted in the initial management prepared financial statements being materially incorrect.

Recommendations: We recommend the Department modify its procedures related to the identification and recording of accruals to ensure that the impact arising from changes in circumstances/operations are given the appropriate consideration.

Corrective Action Taken or Planned: The Fiscal Management Office (FMO) will re-evaluate and strengthen internal policies and procedures for the compilation of vouchers payable to ensure that the impact arising from changes in circumstances/operations are given the appropriate consideration.

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2013

Section II – Financial Statement Findings (continued)

Finding No.: 2013-01 Financial Statement Reporting (continued)

The Med-QUEST Division (MQD) will work to strengthen internal process and procedures for the accrual of the payables and receivables to ensure that the impact arising from changes in circumstances/operations are given the appropriate consideration. MQD will also work in conjunction with the Department of Accounting and General Services (DAGS) in soliciting accounting services to compile the selected schedules and statements for the Comprehensive Annual Financial Report (CAFR) as well as to assist in the preparation of the financial statements.

Target Completion Date: June 30, 2014

Contact Person: Ken Kitamura, Fiscal Management Officer, (808) 586-4856 or Brian Pang, Finance Officer, (808) 692-7956

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2013

Section III – Federal Award Findings and Questioned Costs

Finding No.: 2013-02 Maintaining Proper Case Documentation to Support Eligibility Determinations

Federal Agency: U.S Department of Health and Human Services
CFDA No.: 93.778
Program: Medical Assistance Program
Requirement: Eligibility
Type of Finding: Non-Compliance and Material Weakness

Criteria: The Department is required to include in each applicant’s case record facts to support the Department’s decision on his application (42 CFR Part 435.913). Included in each applicant’s case record are documents verifying the relevant information in initial eligibility determinations and re-determinations (42 CFR Part 435.916 and 42 CFR Part 435.940 – 960).

Condition, cause and context: We selected 70 case files for testing and noted the following:

Eligibility Re-Determinations

- 6 case files could not be located and therefore we could not test the accuracy of the eligibility re-determination resulting in the overpayment of benefits totaling \$31,562.
- 6 case files that did not contain the required verification forms resulting in estimated overpayment of benefits totaling \$12,524.

Initial Eligibility Determinations and Verifications

- 1 case file could not be located and therefore we could not test the accuracy of the eligibility determination resulting in the overpayment of benefits totaling \$3,758.
- 1 case file where a participant was incorrectly categorized as disabled resulting in the overpayment of benefits totaling \$6,445.
- 1 case file did not contain the required verification forms. The missing forms did not result in an overpayment or underpayment of benefits as we were able to verify the required information using other sources of information.

Although the Department has policies and procedures in place to ensure that case files are established for each applicant/participant and that required eligibility documentation is on file, there was a lack of diligence in tracking case files and completing/filing the required documents.

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2013

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

Finding No.: 2013-02 Maintaining Proper Case Documentation to Support Eligibility Determinations (continued)

Effect: Failure to properly maintain the required case records and related verification forms limits the ability of the Department to demonstrate compliance with the requirements. Further, there is a risk of inaccurate eligibility determinations resulting in ineligible participants receiving benefits and/or eligible participants receiving excess/deficient benefit amounts.

Questioned costs: \$54,289

Recommendations: We recommend the Department be more diligent in ensuring that its files are properly transferred between branches. We also recommend the Department diligently perform the required procedures and maintain the appropriate documents related to initial and re-determinations of eligibility.

Corrective Action Taken or Planned: Case samples were requested from both the Med-QUEST Division (MQD) Eligibility Branch and from the Benefit Employment Support Services Division (BESSD). Both Divisions have reminded their staff to be more diligent in transferring/filing files, filing forms, and correctly categorizing participants in an effort to ensure files are properly transferred/filed between branches, proper paperwork is filed, and input errors are minimized. Effective October 1, 2013, eligibility determinations, eligibility re-determinations, and eligibility verifications were separated between the two divisions and MQD will be responsible for all Medicaid beneficiaries throughout the state. Additionally, beginning October 1, 2013, the federal law changed to eliminate the need to obtain documents from applicants subject to Modified Adjusted Gross Income (MAGI) based income methodology and beneficiaries. The new eligibility system will conduct verifications with existing data sources. For situations in which documentation is still required, MQD is planning to implement an enterprise content management system.

Target Completion Date: Ongoing

Contact Person: Alan Takahashi, Eligibility Branch Administrator, (808) 587-7291

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2013

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

Finding No.: 2013-03 Complete Eligibility Applications and Annual Eligibility Re-Verifications in a Timely Manner

Federal Agency: U.S Department of Health and Human Services
CFDA No.: 93.778
Program: Medical Assistance Program
Requirement: Eligibility
Type of Finding: Non-Compliance and Material Weakness

Criteria: Title 42 CFR Part 435.911 requires the timely determination of eligibility of individuals who apply for Medicaid benefits within 1) Ninety days for applicants who apply for Medicaid on the basis of disability, and 2) forty-five days for all other applicants. In addition, Title 42 CFR Part 435.916 requires annual re-verifications of participant eligibility.

Condition, cause and context: During our audit, we noted the following:

1. There were 138,506 initial applications received during fiscal year 2013. Of these initial applicants, there was an average of approximately 300 applications at the end of each month for which eligibility was not determined in a timely manner. As of the end of the fiscal year, the Department was able to reduce the number of outstanding applications for which eligibility was not determined in a timely manner to 178.
2. There were 74,634 renewals processed during fiscal year 2013. Of these renewals, there was an average of approximately 2,000 participants at the end of each month that were not re-verified for eligibility in a timely manner. As of the end of the fiscal year, the Department was able to reduce the number of participants for which eligibility re-verification was not completed in a timely manner to 1,033 participants.

While authorized overtime was a means to reduce the overdue applications and re-verifications, the Eligibility Branch was not able to sufficiently prioritize applicants/participants by application/re-determination date to eliminate the backlog.

Effect: The backlog of applications pending eligibility determinations and overdue annual re-verifications increases the risk that ineligible recipients may continue receive benefits or that eligible applicants may not receive benefits in a timely manner.

Questioned costs: None

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2013

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

Finding No.: 2013-03 Complete Eligibility Applications and Annual Eligibility Re-Verifications in a Timely Manner (continued)

Recommendations: We recommend the Department continue to assess the staffing requirements at the Eligibility Branch as well as reviewing its procedures over prioritizing applicants/participants to ensure that the backlog of applications pending eligibility determinations perform timely annual re-verifications is eliminated.

Corrective Action Taken or Planned: We appreciate the auditor’s recognition of our improvement in the reduction of overdue applications and annual re-verifications.

The Med-QUEST Division (MQD) continues to work with existing staff to address the overdue applications and annual re-verifications and have made significant improvement in this area. Filling vacant positions continues to remain a top priority. In addition, MQD is utilizing temporary 89-day appointments to temporarily fill vacant positions until they are permanently filled.

A new electronic eligibility system (KOLEA) became operational on October 1, 2013 to be in compliance under the Affordable Care Act. This new system will expedite the processing of applications and annual re-verifications.

Target Completion Date: Ongoing

Contact Person: Alan Takahashi, Eligibility Branch Administrator, (808) 587-7291

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2013

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

Finding No.: 2013-04 Perform ADP System Risk Analysis and System Security Review

Federal Agency: U.S Department of Health and Human Services
CFDA No.: 93.778
Program: Medical Assistance Program
Requirement: Special Tests and Provisions – ADP Risk Analysis and System Security Review
Type of Finding: Non-Compliance and Material Weakness

Criteria: Title 45 CFR Part 95.621 requires the conducting of a review of the Automatic Data Processing (ADP) system on a biennial basis. At a minimum, the review shall include an evaluation of physical and data security operating procedures and personnel practices.

Condition, cause and context: We noted that the last ADP system risk analysis and system security review was conducted in April 2008. Medical Assistance Program management indicated that the biennial risk analysis and security review was not conducted due to the lack of resources.

Effect: The system serves as a critical control over participant eligibility and the processing of payments. Therefore, the lack of biennial system reviews increases the risk that non-compliance with regard to utilization, fraud and accuracy of claims could go undetected.

Questioned costs: None

Recommendations: The Department should allocate the necessary resources needed to perform the ADP risk analytics and system security review on a biennial basis.

Corrective Action Taken or Planned: To efficiently manage state funds, the Med-QUEST Division (MQD) postponed the assessment until the new eligibility system was developed in order to be included in the assessment. The MQD has requested funding in the 2014 Legislature session for resources to perform system security remediation, which will include a risk analysis and security review.

Target Completion Date: Ongoing

Contact Person: Randy Chau, Systems Office Administrator, (808) 692-7951

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2013

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

Finding No.: 2013-05 Improve Controls over Utilization, Fraud and Accuracy of Medicaid Claims

Federal Agency: U.S Department of Health and Human Services
CFDA No.: 93.778
Program: Medical Assistance Program
Requirement: Special Tests and Provisions – Medicaid Fraud Control Unit
Type of Finding: Non-Compliance and Material Weakness

Criteria: Title 42 CFR Part 456 Subpart A requires statewide program of control of the utilization of all Medicaid services. In addition, Title 42 CFR 456.23 requires a post payment review process that allows State personnel to review recipient utilization and provider service profiles and exception criteria to identify and correct misutilization practices of recipients and providers. Lastly, Title 42 Part 455.13 requires the Medicaid agency to have methods for identification, investigation, and referral of fraudulent Activity.

Condition, cause and context: During our review, 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 Hawaii Prepaid Medical Management Information System (HPMMIS) and an extensive list of medical services and procedures which require prior authorization. However, we noted deficiencies in the back-end control activities required by Title 42 CFR Part 456 Subpart A, Title 42 CFR 456.23, and Title 42 Part 455.13.

More specifically, we noted the following conditions:

- The Department has contracted a Peer Review Organization (PRO) to perform certain utilization control activities such as acute hospital reviews, pre-admission screening and resident reviews (PASRR) for nursing facilities and long-term care determinations. In order for the PRO to perform such reviews, claims samples must meet specific claims sampling criteria which are determined by the MQD through the use of the Data Warehouse (DW) and additional information obtained from providers and health plans. The MQD is backlogged in generating samples for managed care claims. The latest sample generated for managed care claims during fiscal year end June 30, 2013 was for calendar year 2011.

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2013

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

Finding No.: 2013-05 Improve Controls over Utilization, Fraud and Accuracy of Medicaid Claims (continued)

- There is still no formal ongoing post payment review of a sample of claims. It has been over nine years since the last review and the monitoring of ACS, its pharmacy benefits manager (PBM). That report issued by an independent healthcare auditing and consulting company recommended the need to explore additional edits, analysis, and reporting in order to expand anti-fraud efforts.
- The Medicaid Investigations Unit (MIU) is an important component of identifying and investigating fraudulent activity. In the past, this unit was comprised of one individual and in June 2008, this individual retired from the DHS. The position was later filled by other individuals during the months of January to June 2011 and March to December 2012. To date, the position remains vacant. However, DHS is currently in the process of looking to fill the position.

The DHS continues to experience challenges to improve back-end control activities due to limitations in resources and staffing.

Effect: Weaknesses in back-end control activities may result in the risk of failure to identify and correct misutilization practices and potential fraud. More specifically we noted the backlog in generating managed care claims samples according to specific sampling criteria has delayed the process of reviewing managed care claims for PRO functions.

Questioned costs: None

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

- 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. The Payment Error Rate Measurement conducted by Centers for Medicare and Medicaid Services is an example of a post payment review.
- Continue the effort to permanently hire an investigator to identify and investigate suspected fraud.

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2013

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

**Finding No.: 2013-05 Improve Controls over Utilization, Fraud and Accuracy of Medicaid
Claims (continued)**

Corrective Action Taken or Planned: Med-QUEST Division is currently under managed care structure in which the majority of the pharmacy claims are processed via contracted health plans. These contracted health plans are responsible to conduct their own review and monitor the back-end controls activities as per their contracts with MQD. We will continue to have a minimum amount of fee for service claims and will conduct a post payment review of those claims. We are in the process of establishing a pharmacist position and they will have access to the Nexis-Lexis system to extract the necessary data to conduct these reviews. We are also conducting monthly Surveillance and Utilization Review Subsystem (SURs) reviews for non-pharmacy claims using the Lexis-Nexis system.

An investigator has been hired effective February 2014. We are currently in the process of recruiting another investigator that was approved last legislative session and are also seeking in the current supplemental budget a 3rd investigator.

Target Completion Date: December 31, 2014

Contact Person: Brian Pang, Finance Officer, (808) 692-7956

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2013

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

Finding No.: 2013-06 Allowable Costs Under Individualized Plans for Employment

Federal Agency: U.S Department of Education
CFDA No.: 84.126
Program: Vocational Rehabilitation
Requirement: Allowable Costs
Type of Finding: Non-Compliance and Material Weakness

Criteria: In accordance with 29 USC Section 723 (a), vocational rehabilitation services provided under this subchapter are any services described in an individualized plan for employment developed for the individual. All services listed in the participant’s individualized plan for employment are considered to be allowable activities.

Condition, cause and context: Out of 74 payments selected we noted 22 payments that were not listed in the related participants’ individualized plan for employment resulting in the overpayment of benefits of \$4,618.

The Department’s policies and procedures allow for revision to the individualized plan for employment as necessary, however, personnel handling the cases of these individuals were not diligent in revising the individualized plans. Department personnel indicated that they are experiencing challenges in updating the individualized plans due to staffing requirements.

Effect: Failing to follow the policies and procedures resulted in questioned costs and non-compliance with the program requirements.

Questioned costs: \$4,618

Recommendations: Department personnel should be more diligent in complying with the policies and procedures in place. The Department should also consider whether additional staff or the approval of overtime is necessary to address current workloads.

Corrective Action Taken or Planned: Upon notification from the auditor that Division of Vocational Rehabilitation (DVR) had not been verifying the payments and services as listed on a client’s Individualized Plan for Employment (IPE), DVR took immediate corrective action.

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2013

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

**Finding No.: 2013-06 Allowable Costs Under Individualized Plans for Employment
(continued)**

The DVR Administrator immediately issued new procedures and met with staff to inform them of the finding and new procedures. Effectively immediately, all staff responsible for issuing purchase orders or pCard authorizations will do so only after reviewing the client's IPE and verifying that the service is listed. No authorization will be provided if the service is not listed on the client's IPE. In addition, DVR will be conducting trimester reviews of the client files to ensure that payments made were made for services listed on the client's IPE.

Consequently, DVR is in the process of implementing a new Automated Case Management System on July 7, 2014, which should decrease the incidence of payments being made without being listed on the client's IPE. The automated system will not allow the release of the authorization if the service is not specifically listed on the client's IPE.

Target Completion Date: July 7, 2014

Contact Person: Albert Perez, DVR Administrator, (808) 586-9741

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2013

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

Finding No.: 2013-07 Complete Eligibility Determinations in a Timely Manner

Federal Agency: U.S Department of Education
CFDA No.: 84.126
Program: Vocational Rehabilitation
Requirement: Eligibility
Type of Finding: Non-Compliance and Material Weakness

Criteria: In accordance with 29 U.S. Code 722(a)(6), the Department must determine whether an individual is eligible for vocational rehabilitation services within a reasonable period of time, not to exceed 60 days, after the individual has submitted an application for services, unless exceptional and unforeseen circumstances exist beyond the Department’s control and the Department and the applicant agree to a specific extension of time.

Condition and context: The Department did not always follow its policies and procedures to document a specific extension of time signed by both the counselor and applicant. Specifically, for 5 of 60 applications tested, it took between 61 and 107 days to determine eligibility. For these applications, the Department did not obtain a signed extension letter with the applicant.

To ensure compliance with the timely eligibility determination, on a monthly basis DHS provides to each counselor a list of the counselor’s assigned outstanding cases. The counselors are instructed to prioritize cases that are close to the 60 day eligibility deadline. Program management stated that a lack of diligence and high caseloads are the primary cause of these errors.

Effect: Failure to make eligibility determinations in a timely manner may result in a delay of services provided.

Questioned costs: None

Recommendation: The Department should provide adequate supervision of its caseworkers and follow its policies and procedures to ensure compliance with eligibility requirements.

Corrective Action Taken or Planned: Upon notification from the auditor that Division of Vocational Rehabilitation (DVR) had not been making timely determinations or obtaining signed extension letters, DVR took immediate corrective action.

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2013

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

Finding No.: 2013-07 Complete Eligibility Determinations in a Timely Manner (continued)

The DVR Administrator immediately issued new procedures and met with staff to inform them of the finding and new procedures. Effectively immediately, supervisors will be tasked with tracking all cases. They will be reminding counselors of cases not determined eligible at the 45th day and again at the 50th day. The supervisor will discuss all cases entering into the 55th day with the counselors to ensure the determination will be made timely. In addition, supervisors will be habitually reminding counselors to obtain signed extension letters when applicable.

Consequently, DVR is in the process of implementing a new Automated Case Management System on July 7, 2014, which should decrease the incidence of untimely determinations. The automated system will have an internal tickler system that will provide staff with notifications as it counts down the 60-day eligibility requirement.

Target Completion Date: July 7, 2014

Contact Person: Albert Perez, DVR Administrator, (808) 586-9741

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2013

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

**Finding No.: 2013-08 Federal Funding Accountability and Transparency Act (FFATA)
Reporting**

Federal Agency: U.S Department of Housing and Urban Development
CFDA No.: 14.238
Program: Shelter Plus Care
Requirement: Reporting
Type of Finding: Non-Compliance and Material Weakness

Criteria: 2 CFR Part 170 requires an entity to report each action that obligates \$25,000 or more in federal funds for a subaward to an entity. This information is to be reported no later than the end of the month following the month in which the obligation was made.

Condition, cause and context: We selected 5 out of 13 subawards for testing and noted that the Department did not adhere to the required reporting deadlines for all 5 subawards. Program management indicated that they were aware of the requirement, but did not have access to the FFATA reporting database until subsequent to the fiscal year end.

Effect: The Department did not comply with the FFATA reporting requirements.

Questioned costs: None

Recommendations: We recommend the Department develop and implement procedures to ensure that required FFATA reports are submitted in a timely manner.

Corrective Action Taken or Planned: The Fiscal Management Office (FMO) will develop and implement internal policies and procedures to ensure compliance with the Federal Funding Accountability and Transparency Act (FFATA) of 2006. FMO will also conduct training for the implementation of the reporting policies and procedures.

Target Completion Date: March 31, 2014

Contact Person: Ken Kitamura, Fiscal Management Officer, (808) 586-4856

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2013

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

Finding No.: 2013-09 Improve the Accuracy of Child Care Reimbursements

Federal Agency: U.S. Department of Health and Human Services
CFDA No.: 93.575 and 93.596
Program: Child Care and Development Block Grant
Requirement: Eligibility
Type of Finding: Non-Compliance and Material Weakness

Criteria: Title 45 CFR Section 98.67 requires that the Department expend and account for Child Care and Development funds in accordance with their own laws and procedures for expending and accounting for their own funds. According to Chapter 17-798.2 of the Hawaii Administrative Rules (HAR), child care payments will include the monthly cost of child care per child, which will be made in accordance with the established fee scale and rate table as stipulated in the HAR.

Condition, cause and context: We selected 70 case files for testing and noted nine instances where the information used in the Child Care Worksheet to calculate the eligible child care payments was incorrect. These errors resulted in the following:

- 6 instances in which benefit payments totaling \$1,296 were underpaid to participants.
- 1 instance in which benefit payments totaling \$40 was overpaid to participants.
- 2 instances where the income calculation was incorrect, however there was no impact to the benefits paid.

These errors were due to clerical mistakes or lack of proper oversight.

Effect: Failure to properly calculate child care payments resulted in over and under payments of benefits.

Questioned costs: \$40

Recommendation: The Department should ensure that child care payments are calculated properly. The Department should perform post payment reviews of a sample of child care payments to ensure accuracy and assess case worker performance.

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2013

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

Finding No.: 2013-09 Improve the Accuracy of Child Care Reimbursements (continued)

Corrective Action Taken or Planned: Since mid-2013, Child Care Program Office (CCPO) staff has been working with the subsidy contractor in standardization of the contractor’s Quality Assurance (QA) review protocols and instrument to be used for continuous quality improvement assessment of performance and staff training needs regarding accuracy of payments issued. The contractor is required to do monthly QA reviews, with CCPO providing the list of selected cases to the contractor. CCPO staff has started conducting secondary sample case reviews of the contractor’s cases for monitoring purposes and ensuring reliability of the contractor’s QA process. The CCPO program staff will continue to monitor the contractor and provide policy clarifications as needed to the contractor.

The Department will also revisit seeking the assistance of DHS Quality Control unit to conduct secondary sample case reviews of the contractor’s cases to assist in identifying areas in which additional training or policy clarification may be needed for the contract staff. CCPO had originally requested DHS QC assistance in mid-2012, however due to the caseload of the DHS QC unit it was determined that the DHS QC unit would not be able to assist CCPO in conducting secondary reviews until possibly 2014.

For the First-To-Work program that issues child care subsidies to families receiving financial assistance, staff from the Employment & Training Program Office has incorporated the child care subsidy portion into the established monthly and quarterly case review process. Of the cases that they sample for their First-To-Work reviews, they are utilizing the common review instrument to determine whether the child care subsidy issued was properly authorized. Training was provided to the reviewers to ensure consistency in how they are conducting the reviews. Training was also provided to the First-To-Work staff to reinforce policies regarding issuance of child care assistance for First-To-Work clients.

Target Completion Date: Ongoing

Contact Person: Dana Balansag, Child Care Program Administrator, BESSD, (808) 586-7187

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2013

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

**Finding No.: 2013-10 Federal Funding Accountability and Transparency Act (FFATA)
Reporting**

Federal Agency: U.S. Department of Health and Human Services
CFDA No.: 93.575 and 93.596
Program: Child Care and Development Block Grant
Requirement: Reporting
Type of Finding: Non-Compliance and Material Weakness

Criteria: 2 CFR Part 170 requires an entity to report each action that obligates \$25,000 or more in federal funds for a subaward to an entity. This information is to be reported no later than the end of the month following the month in which the obligation was made.

Condition, cause and context: We selected 2 out of 4 subawards for testing and noted that the Department did not adhere to the required reporting deadlines for all of the selected subawards. Program management indicated that they were aware of the requirement but due to insufficient staffing, were unable to report on a timely basis.

Effect: The Department did not comply with the FFATA reporting requirements.

Questioned costs: None

Recommendation: We recommend the Department prioritize its available resources to ensure compliance with the requirements.

Corrective Action Taken or Planned: The Fiscal Management Office (FMO) will develop and implement internal policies and procedures to ensure compliance with the Federal Funding Accountability and Transparency Act (FFATA) of 2006. FMO will also conduct training for the implementation of the reporting policies and procedures.

Target Completion Date: March 31, 2014

Contact Person: Ken Kitamura, Fiscal Management Officer, (808) 586-4856

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2013

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

Finding No.: 2013-11 Maintaining Proper Case Documentation to Support Eligibility Determinations

Federal Agency: U.S. Department of Health and Human Services
CFDA No.: 93.568
Program: Low Income Home Energy Assistance
Requirement: Eligibility
Type of Finding: Non-Compliance and Material Weakness

Criteria: Title 42 USC Chapter 94 Section 8624(b)(2) allows the Department to provide assistance to (a) households in which one or more individuals are receiving Temporary Assistance for Needy Families (TANF), Supplemental Security Income (SSI), Supplemental Nutrition Assistance Program (SNAP) benefits, or certain needs-tested veterans benefits; or (b) households with incomes which do not exceed the greater of 150 percent of the State’s established poverty level, or 60 percent of the State median income.

Condition, cause and context: We selected 60 case files for testing and noted the following:

- 1 case file could not be located and therefore we could not test the accuracy of the eligibility determination resulting in the overpayment of benefits in the amount of \$306.
- 6 instances where the income information used in the LIHEAP Determination form to calculate the eligible credit amount were incorrect resulting in the overpayment of benefits in the amount of \$204.

Although the Department has policies and procedures in place to ensure that case files are established and/or maintained for each applicant and that the required eligibility documentation is in the file, there was a lack of diligence in following the policies and procedures.

Effect: Failure to properly maintain the required case records, related verification forms and properly calculate the benefit amount limits the ability of the Department to demonstrate compliance with the requirements. Further, there is a risk of inaccurate eligibility determinations resulting in ineligible applicants receiving benefits and/or eligible participants receiving excess/deficient benefit amounts.

Questioned costs: \$510

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2013

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

Finding No.: 2013-11 Maintaining Proper Case Documentation to Support Eligibility Determinations (continued)

Recommendation: We recommend the Department be more diligent in ensuring that its files are properly filed and maintained. Also, the Department personnel should ensure that benefits are calculated properly by performing post payment reviews of a sample of payments.

Corrective Action Taken or Planned: Regarding the file that could not be located, although the contractor was not able to locate the application form, we were able to confirm with a copy of the sign-in sheet, that the applicant signed in at the location where the application for LIHEAP was filed. LIHEAP applicants are required to have a face-to-face interview for a determination of eligibility. The fact that the applicant was approved for benefits means a face-to-face interview was conducted and a copy of the required active utility account was also submitted. We also have confirmation that the applicant has an active utility account through the utility company. The applicant is also a SNAP recipient which is an eligibility criterion for LIHEAP eligibility. We agree that we should have the application form but we do not agree with the questioned cost of \$306 since we believe the applicant to be entitled to the credit.

For the six instances where there were miscalculations, only two resulted in an overpayment of \$204, no overpayments resulted in four of the six cases.

The LIHEAP program office will be implementing procedures to be more diligent in filing files/forms properly and will also be conducting training to be more diligent in following rules and correctly determining eligibility. The LIHEAP program office will continue to provide training to contract staff every year just prior to the annual open enrollment period. On site audits are also conducted annually to ensure accuracy.

The LIHEAP program is a labor intensive and manual program with no computer payment system support to determine eligibility. Calculations for eligibility are completed manually. To prevent miscalculations by workers the supervisor will do a review of cases prior to approval. Department personnel will also be more diligent insuring correct determinations are made by performing post payment reviews of a sample of payments. Going forward, the LIHEAP program office is in the planning stage to include the LIHEAP program in the new eligibility system planned for the DHS/BESSD programs. We have asked for the inclusion of LIHEAP eligibility and payment system support in the design of the new BESSD payment system and believe this will ensure greater accuracy.

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2013

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

**Finding No.: 2013-11 Maintaining Proper Case Documentation to Support Eligibility
Determinations (continued)**

Target Completion Date: Ongoing

Contact Person: Lorie Young, Financial Assistance Program Administrator, (808) 586-5732

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2013

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

**Finding No.: 2013-12 Federal Funding Accountability and Transparency Act (FFATA)
Reporting**

Federal Agency: U.S Department of Health and Human Services
CFDA No.: 93.667
Program: Social Services Block Grant
Requirement: Reporting
Type of Finding: Non-Compliance and Material Weakness

Criteria: 2 CFR Part 170 requires an entity to report each action that obligates \$25,000 or more in federal funds for a subaward to an entity. This information is to be reported no later than the end of the month following the month in which the obligation was made.

Condition, cause and context: We selected 9 out of 29 subawards for testing and noted the Department did not adhere to the required reporting deadlines and required data elements for all 9 subawards. Management became aware of the FFATA reporting requirements in July 2012. Shortly thereafter, management obtained access to the FFATA reporting database; however, management did not submit the subaward data until November 2012. Additionally, the subaward information reported was the total expenditure amount instead of the awarded amount as required, resulting in erroneous information reported for 3 out of the 9 subawards selected.

Effect: The Department did not comply with the FFATA reporting requirements.

Questioned costs: None

Recommendations: We recommend the Department develop and implement procedures to ensure that required FFATA reports are submitted timely and include the required data elements.

Corrective Action Taken or Planned: The Fiscal Management Office (FMO) will develop and implement internal policies and procedures to ensure compliance with the Federal Funding Accountability and Transparency Act (FFATA) of 2006. FMO will also conduct training for the implementation of the reporting policies and procedures.

Target Completion Date: March 31, 2014

Contact Person: Ken Kitamura, Fiscal Management Officer, (808) 586-4856

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2013

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

Finding No.: 2013-13 Tracking Earmarked Funds

Federal Agency: U.S Department of Health and Human Services
CFDA No.: 93.667
Program: Social Services Block Grant
Requirement: Allowable Cost, Eligibility, Earmarking
Type of Finding: Non-Compliance and Material Weakness

Criteria: 42 USC 604(d)(3)(A) and 9902(2) requires an entity to use all of the amount transferred in from the Temporary Assistance for Needy Families (TANF) (CDFA 93.558) program to provides services to children or their families whose income is less than 200 percent of the official poverty guideline as revised annually by U.S. Department of Health and Human Services.

Condition, cause and context: The Social Services Block Grant program receives transfers of funds from the TANF program to provide benefits to participants subject to the aforementioned income requirement. Although the Social Services Block Grant program used the TANF funds for allowable activities, program management indicated that they were not aware of the income requirement and consequently did not monitor or gather/maintain documentation to support compliance with the above income requirement.

Effect: Failure to monitor and document program participants' income resulted in non-compliance.

Questioned costs: \$9,214,201

Recommendations: We recommend DHS develop and implement procedures to ensure that TANF monies are spent in accordance with the requirements.

Corrective Action Taken or Planned: Upon notification that the Social Services Division (SSD) was not monitoring and documenting program participants' income, SSD took immediate corrective action. They are currently in the process of developing and implementing new policies and procedures to monitor and document program participants' income to ensure that TANF Transfer funds are used to service families whose income is less than 200% of the poverty guideline.

Target Completion Date: April 30, 2014

Contact Person: Kayle Perez, Child Welfare Services Branch Administrator, (808) 586-5667

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2013

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

Finding No.: 2013-14 Maintaining Proper Case Documentation to Support Eligibility Determinations

Federal Agency: U.S. Department of Health and Human Services
CFDA No.: 93.659
Program: Adoption Assistance
Requirement: N/A
Type of Finding: Known Questioned Costs greater than \$10,000

Criteria: Title 42 USC Section 673 governs the criteria over the allowable cost and eligibility of participants. Additionally, Title 45 CFR 92.42 requires that the Department retain all financial and programmatic records, supporting documents, statistical records, and other records of grantees for three years.

Condition, cause and context: We selected 60 case files for testing and noted the following:

- 1 case file where the participant was incorrectly categorized as eligible in 2006 resulting in the overpayment of benefits in 2013 of \$12,510.
- 1 case file which could not be located and therefore we could not determine eligibility resulting in the overpayment of benefits in the amount of \$887.

Although the Department has policies and procedures in place to ensure that case files are established and/or maintained for each applicant and that the required eligibility documentation is in the file, there was a lack of diligence in following the policies and procedures.

Effect: Failure to properly maintain the required case records limits the ability of the Department to demonstrate compliance with the requirements. Additionally, errors in the data entry process increase the risk of inaccurate eligibility determinations resulting in ineligible participants receiving benefits.

Questioned costs: \$13,397

Recommendation: We recommend the Department be more diligent in following its existing policies and procedures.

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2013

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

**Finding No.: 2013-14 Maintaining Proper Case Documentation to Support Eligibility
Determinations (continued)**

Corrective Action Taken or Planned: Upon notification that Child Welfare Services (CWS) incorrectly categorized a participant as eligible, CWS took immediate corrective action. Going forward, CWS will be restricting the ability for CWS staff to change the eligibility code in our database system. Only the staff worker who determines Title IV-E eligibility will be allowed to change the code. A written request has been prepared and submitted to administration to initiate this change.

Through our recent CWS reorganization, the Office Assistant position was restored and filled in the Title IV-E eligibility unit. One of the primary functions of this position will be Records Management and they have already implemented a tracking system for their records which will be managed by their Office Assistant.

Target Completion Date: March 31, 2014

Contact Person: Kayle Perez, Child Welfare Services Branch Administrator, (808) 586-5667

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2013

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

Finding No.: 2013-15 Monitor the Medicaid Drug Rebate Program

Federal Agency: U.S Department of Health and Human Services
CFDA No.: 93.778
Program: Medical Assistance Program
Requirement: Allowable Costs
Type of Finding: Significant Deficiency

Criteria: The Medicaid Drug Rebate Program, as set forth in Section 1927 of the Social Security Act requires the Department to maintain drug utilization data that identifies the number of units of each covered outpatient drug for which the Department reimbursed providers. The number of units is applied to the unit rebate amount to determine the actual rebate amount due from each manufacturer.

Condition, cause and context: The Department subcontracts the daily operations of the drug rebate program to Xerox, including billing, collection, accounting, and dispute resolution. While the day-to-day operations of the drug rebate program have been subcontracted to Xerox, the Department is still ultimately accountable for the drug rebate program. We noted that the Department does not perform monitoring of subcontractor activities. Due to the complexity involved in the drug rebate calculations, the Department does not have the necessary resources and staffing requirements to perform monitoring procedures of subcontractor activities.

Effect: The lack of subcontractor monitoring activities may result in the risk that the drug rebates are not being calculated correctly and accurately reported.

Questioned costs: None

Recommendations: The Department should establish formal procedures to monitor its subcontractor activities of the drug rebate program.

Corrective Action Taken or Planned: Med-QUEST Division (MQD) is currently in the process of establishing a part-time pharmacist position to assist in the monitoring of the drug rebate program. The pharmacist is critical in identifying correct units and price per unit calculations to effectively monitor the drug rebate program. Once the pharmacist is hired, we will work on establishing formal policies and procedures to monitor the contractor.

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2013

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

Finding No.: 2013-15 Monitor the Medicaid Drug Rebate Program (continued)

Target Completion Date: December 31, 2014

Contact Person: Brian Pang, Finance Officer, (808) 692-7956

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2013

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

Finding No.: 2013-16 Suspension and Debarment

Federal Agency: U.S Department of Housing and Urban Development
CFDA No.: 14.238
Program: Shelter Plus Care
Requirement: Procurement, Suspension and Debarment
Type of Finding: Significant Deficiency

Criteria: Title 2 CFR Section 180.300 states that when entering into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded from federal contracts. This verification may be accomplished by checking the Excluded Parties List System (EPLS), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity. Covered transactions include procurement contracts for goods and services that are expected to equal or exceed \$25,000 and all nonprocurement transactions (that is, subawards to subrecipients) irrespective of award amount (Title 2 CFR Sections 180.210 through 180.220 and 180.970).

Condition, cause and context: We selected 2 subawards to subrecipients and noted that the Department did not verify that the 2 subrecipients were not suspended or debarred from federal contracts. Program management asserted that they were not aware of the requirement to verify that the subrecipient was not suspended or debarred or otherwise excluded from federal contracts. We searched the EPLS and verified that the subrecipients for the procurements awards tested were not suspended or debarred.

Effect: Failure to follow proper procurement standards could result in payments to excluded parties.

Questioned costs: None

Recommendations: We recommend the Department implement procedures to ensure compliance with the requirement. Procedures should include documentation to verify a search of the EPLS, collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity.

Corrective Action Taken or Planned: Upon notification from the auditor that Homeless Programs Office (HPO) had not been verifying the suspension or debarment status of sub-recipients, HPO took immediate corrective action.

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2013

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

Finding No.: 2013-16 Suspension and Debarment (continued)

The HPO Program Specialist immediately researched the Federal Government’s System for Award Management (SAM). Agencies that respond to HPO procurement for federal funds are required to submit their DUNS numbers so HPO immediately ran the appropriate reports to verify the suspension/debarment status of all applicants. This procedure has been memorialized in writing and is now a part of the HPO procedural manual for federally funded programs.

In particular, HPO will continue to execute procurement process as required for federal funds. Upon receipt of proposals from agencies, HPO will logon to SAM and run a report about possible suspension and debarment. A hard copy of that report will be included in HPO’s procurement file. If any issues arise from the SAM report that may impact the State’s ability to contract with the agency, these issues will be addressed accordingly.

This updated procedure has already been instituted on two recent procurement processes conducted by HPO: Notice of Funding Availability for HUD’s Continuum of Care program FY13 and for the Emergency Solutions Grant program for FY14.

Target Completion Date: February 26, 2014

Contact Person: Lori Tshako, Homeless Programs Administrator, (808) 586-7072

PART V

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

**Department of Human Services
State of Hawaii**

Summary Schedule of Prior Audit Findings
June 30, 2013

STATUS REPORT

This section contains the current status of our prior audit recommendations. The recommendations are referenced to the pages of the previous audit report for the fiscal year ended June 30, 2012, dated March 18, 2013.

Recommendations

Status

Part III – Federal Award Finding and Questioned Costs Section

**2012-01 Improve the Accuracy of Child Care
Reimbursements**

CFDA No.: 93.575 & 93.596

Criteria: Title 45 CFR Part 98.67 requires that the DHS shall expend and account for Child Care and Development funds in accordance with their own laws and procedures for expending and accounting for their own funds. According to the Amendment to Chapter 17-798.2 Hawaii Administrative Rules child care payments shall include the monthly cost of child care per child, which shall be made in accordance with the established fee scale and rate table as stipulated in the amendment.

This finding is still applicable. See finding 2013-09.

Condition, cause, and context: We noted six (6) instances in which benefit payments totaling \$1,318 were overpaid to participants and four (4) instances in which benefit payments totaling \$2,827 were underpaid to participants. Program workers' clerical error or oversight which resulted in incorrect co-pay percentage being applied or incorrect reimbursement calculation based on the level of child care need.

Effect: Benefit payments were incorrectly calculated resulting in over and under payments.

Questioned costs: None

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Part III – Federal Award Finding and Questioned Costs Section (continued)

**2012-02 Complete Eligibility Applications and
Annual Eligibility Re-Verifications in a
Timely Manner**

CFDA No.: 93.778

Criteria: Title 42 CFR Part 435.911 requires the determination of eligibility of individuals who apply for Medicaid benefits within 45 days from the date of application. In addition, Title 42 CFR Part 435.916 requires annual re-verifications of participant eligibility.

This finding is still applicable. See finding 2013-03.

Condition, cause, and context: Although the DHS is still behind in its processing of Medicaid applications and annual eligibility re-verifications, the number of applications outstanding greater than 45 days as of the end of the fiscal year decreased significantly from the prior year by 88%. As of June 30, 2012, the number of applications outstanding greater than 45 days was 549 compared to 4,475 applications as of June 30, 2011. This is a reduction in backlog of about 14 days to 2 days. The number of overdue annual re-verifications also decreased from 6,308 as of June 30, 2011 to 2,304 as of June 30, 2012 which is a decrease of 62% from the prior fiscal year ending balance. The backlog is approximately 7 days. While authorized overtime was a means to reduce the overdue applications and re-verifications, it was not sufficient to bring application and re-verification processing current. The DHS continues to experience challenges in processing eligibility applications and annual re-verifications on a timely basis due to staffing requirements.

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Summary Schedule of Prior Audit Findings (continued)
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Part III – Federal Award Finding and Questioned Costs Section (continued)

**2012-02 Complete Eligibility Applications and
Annual Eligibility Re-Verifications in a
Timely Manner (continued)**

CFDA No.: 93.778

Effect: The backlog of applications pending eligibility determinations and overdue annual re-verifications may result in the risk that ineligible recipients may be receiving Medicaid benefits.

Questioned costs: None

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Summary Schedule of Prior Audit Findings (continued)
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Part III – Federal Award Finding and Questioned Costs Section (continued)

**2012-03 Perform ADP System Risk Analysis and
System Security Review**

CFDA No.: 93.778

Criteria: Title 45 CFR Part 95.621 requires the conducting of a review of the Automatic Data Processing (ADP) system on a biennial basis. At a minimum, the review shall include an evaluation of physical and data security operating procedures and personnel practices.

This finding is still applicable. See finding 2013-04.

Condition, cause, and context: We noted that last year ADP system risk analysis and system security review was conducted in April 2008. The DHS does not have the necessary resources to perform risk analysis and system reviews on a biennial basis.

Effect: The system serves as a critical control over participant eligibility and the processing of payments. Therefore, the lack of biennial system reviews increases the risk that non-compliance with regard to utilization, fraud and accuracy of claims could go undetected.

Questioned costs: None

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Part III – Federal Award Finding and Questioned Costs Section (continued)

2012-04 Monitor the Medicaid Drug Rebate Program

CFDA No.: 93.778

Criteria: The Medicaid Drug Rebate Program, as set forth in Section 1927 of the Social Security Act requires the DHS to maintain drug utilization data that identifies the number of units of each covered outpatient drug for which the DHS reimbursed providers. The number of units is applied to the unit rebate amount to determine the actual rebate amount due from each manufacturer.

This finding is still applicable. See finding 2013-15.

Condition, cause, and context: The DHS contracts Affiliated Computer Services, Inc. (ACS) to perform the daily operations of the drug rebate program including billing, collection, accounting and dispute resolution. While the day-to-day operations of the drug rebate program have been subcontracted to ACS, DHS is still ultimately accountable for the drug rebate program. We noted that much reliance is placed on ACS to operate the drug rebate program, as there is no monitoring of subcontractor activities. Due to the complexity involved in the drug rebate calculations, the DHS does not have the necessary resources and staffing requirements to perform monitoring procedures of subcontractor activities.

Effect: The lack of sub-monitoring activities may result in the risk that the drug rebates are not being calculated correctly and accurately reported.

Questioned costs: None

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Part III – Federal Award Finding and Questioned Costs Section (continued)

**2012-05 Improve Controls over Utilization, Fraud
and Accuracy of Medicaid Claims**

CFDA No.: 93.778

Criteria: Title 42 CFR Part 456 Subpart A requires a statewide program of control of the utilization of all Medicaid services. In addition, Title 42 CFR Part 456.23 requires a post payment review process that allows State personnel to review recipient utilization and provider service profiles and exception criteria to identify and correct misutilization practices of recipients and providers. Lastly, Title 42 CFR Part 455.13 requires the Medicaid agency to have methods for identification, investigation, and referral of fraudulent activity.

This finding is still applicable. See finding 2013-05.

Condition, cause, and context: 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. 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-

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Part III – Federal Award Finding and Questioned Costs Section (continued)

**2012-05 Improve Controls over Utilization, Fraud
and Accuracy of Medicaid Claims
(continued)**

CFDA No.: 93.778

payment edit functions contained in HPMMIS and an extensive list of medical services and procedures which require prior authorization. However, we noted that back-end control activities can be improved.

More specifically, we noted the following conditions:

- The DHS has contracted a Peer Review Organization (PRO) 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. In order for the PRO to perform such reviews, claims samples must meet specific claims sampling criteria which are determined by the MQD through the use of the Data Warehouse (DW) and additional information obtained from providers and health plans. The MQD is backlogged in generating samples for managed care claims. The latest sample generated for managed care claims during the fiscal year ended June 30, 2012 was for calendar year 2010.
- The Surveillance and Utilization Review Subsystem (SURS) functions include the generation of utilization reports by MQD using DW. 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. SURS personnel were generating reports using DW without

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Part III – Federal Award Finding and Questioned Costs Section (continued)

**2012-05 Improve Controls over Utilization, Fraud
and Accuracy of Medicaid Claims
(continued)**

CFDA No.: 93.778

formal training. It was in October 2012 when MQD improved the process of generating both standardized and customized reports through the use of EDIWatch.

- There is still no formal ongoing post payment review of a sample of claims. It has been over eight years since the last review and the monitoring of ACS, its pharmacy benefits manager (PBM). That report issued by an independent healthcare auditing and consulting company recommended the need to explore additional edits, analysis, and reporting in order to expand anti-fraud efforts.
- The Medicaid Investigations Unit (MIU) is an important component of identifying and investigating fraudulent activity. In the past, this unit was comprised of one individual and in June 2008, this individual retired from the DHS. The position was later filled by other individuals during the months of January to June 2011 and March to December 2012. To date, the position remains vacant. However, the DHS is currently in the process of looking to fill the position.

The DHS continues to experience challenges to improve backend control activities due to limitations in resources and staffing.

Effect: Weaknesss in back-end control activities may result in the risk of failure to identify and correct

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June 30, 2013

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Part III – Federal Award Finding and Questioned Costs Section (continued)

2012-05 Improve Controls over Utilization, Fraud and Accuracy of Medicaid Claims (continued) CFDA No.: 93.778

misutilization practices and potential fraud.

More specifically, we noted the following effects:

- The backlog in generating managed care claims samples according to specific sampling criteria has delayed the process of reviewing managed care claims for PRO functions.
- Due to the lack of a staff investigator there has been no follow-up on any fraud referrals which may result in ongoing fraud and abuse activity. In addition, any referrals from SURS is now being communicated directly from SURS personnel to the Medicaid Fraud Control Unit.

Questioned costs: None

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Summary Schedule of Prior Audit Findings (continued)
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Part III – Federal Award Finding and Questioned Costs Section (continued)

2012-06 Prepare Time Reports Accurately

CFDA No.: 96.001

Criteria: The Social Security Administration’s (SSA) Program Operations Manual System policy instructions, DI 39506.231, require that the hours worked by staffing category and employment status, such as full-time, part-time, or temporary employees, be accurately reported on the Time Reports of Personnel Service for Disability Determination Services (Form SSA-4514).

Finding resolved.

Condition, cause, and context: Total on-duty, holiday and leave, and overtime hours reported on the form SSA-4514 was not arithmetically correct. The DHS improved its report template by replacing manual inputs with formulas for amounts that are totals. However, replacement for one category was overlooked and the manual input total from a previous report period remained for all report periods during the fiscal year. In addition, the supporting worksheet did not have control totals to which the Form SSA-4514 could have been reconciled to improve report accuracy.

Effect: Hours worked by staffing category and employment status were not accurately reported on the quarterly Form SSA-4514 for December 31, 2011, March 31, 2012 and June 30, 2012.

Questioned costs: None

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Part III – Federal Award Finding and Questioned Costs Section (continued)

**2012-07 Federal Funding Accountability and
Transparency Act (FFATA) Reporting**

CFDA No.: 14.238 & 93.575

Criteria: In accordance with 2 CFR Part 170, the DHS is required to report executive compensation and first-tier subcontract awards on contracts and orders expected to be \$25,000 or more made with a new Federal Assistance Identification Number effective October 1, 2010 through the Federal Funding Accountability and Transparency Subaward Reporting System. Reporting must be accomplished by the end of the month following the month in which the subaward is obligated.

This finding is still applicable. See findings 2013-08 and 2013-10.

Condition, cause, and context: During our testing of the reporting compliance requirement, we noted that the DHS did not adhere to the Federal Funding Accountability and Transparency Act (FFATA) reporting requirements for its first-tier subcontract awards. While we noted that a certain program had reported subaward data accurately with supporting documentation available, the reporting was not done by the end of the month following the month in which the subaward was obligated. We also noted a program which has yet to report subaward data. Notice of the FFATA reporting requirement was not given to programs and departments in a timely manner. There are also no formal policies and procedures in place to compile and report data to address the FFATA reporting requirements.

Effect: The DHS did not adhere to the FFATA reporting requirements.

Questioned costs: None

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Part III – Federal Award Finding and Questioned Costs Section (continued)

**2012-08 Improve Subrecipient Monitoring
Procedures**

CFDA No.:14.238

Criteria: In accordance with OMB Circular A-133, Part 3 of the Compliance Supplement, the DHS is required to monitor the subrecipient’s use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and those performance goals are achieved.

Finding resolved.

Condition, cause, and context: Although tenant listings and timesheets are reviewed before payment is made, no site visits were performed for any of its six (6) subrecipients since January 2011. Audit reports submitted by subrecipients tested did not have any findings reported. We were informed by management that site visits were not performed due to a drastic reduction in workforce and turnover in key positions.

Effect: The DHS’s ability to monitor compliance with participant eligibility, matching requirements and other requirements of the program is limited. Therefore, there is an increased risk of noncompliance by the subrecipient.

Questioned costs: None

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**2012-09 Improve Monitoring of Subrecipient’s
Compliance with Matching Requirement**

CFDA No.: 14.238

Criteria: OMB A-133 Compliance Supplement requires the grantee to provide or ensure the provision of supportive housing services that are at least equal in value to the aggregate amount of rental assistance funded by HUD. The manner in which the value of supportive services is calculated is contained in 24 CFR Section 582.110(c).

Finding resolved.

Condition, cause, and context: To ensure subrecipient’s compliance with the matching requirements of the program, financial data that is summarized on an annual performance report is used by the DHS to monitor compliance with the supportive services match. However, the financial data reported is not supported by underlying documentation. The DHS does not require the subrecipient to submit underlying documentation to support the financial data reported.

Effect: The lack of supporting documentation and other procedures to substantiate the financial data amounts reported could be inaccurate with the result being non-compliance with the matching requirement.

Questioned costs: None