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Acting State Auditor  
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## Constitutional Mandate

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

# Financial Audit of the Department of Human Services

## Financial Statements, Fiscal Year Ended June 30, 2013

*The primary purpose of our audit was to form an opinion on the fairness of the presentation of the financial statements for the Department of Human Services as of and for the fiscal year ended June 30, 2013, and to comply with the requirements of federal OMB Circular A-133, which established audit requirements for state and local governmental units that receive federal awards. The audit was conducted by KMH LLP.*

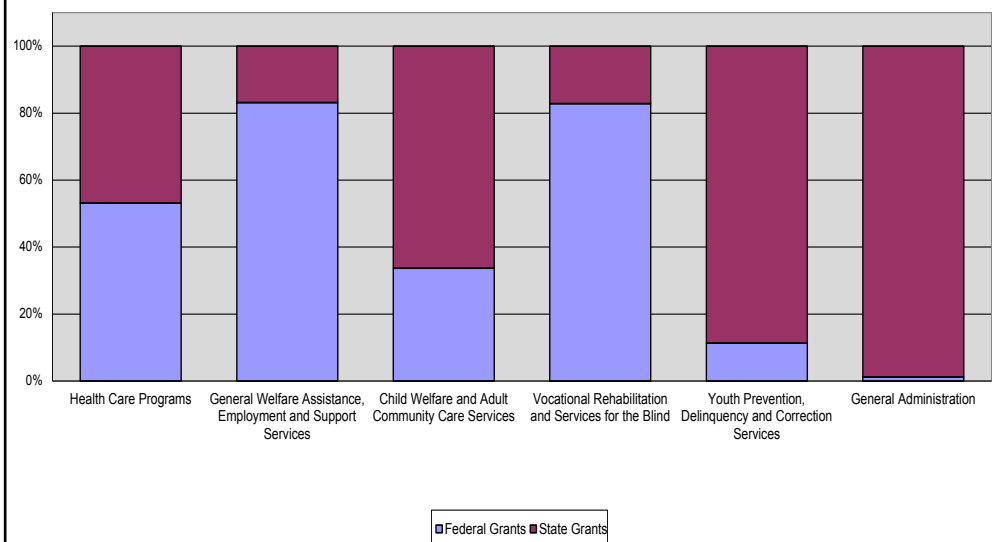
## About the Department

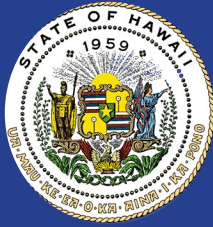
The Department of Human Services' mission is to direct its resources toward protecting and helping those least able to care for themselves and to provide services designed toward achieving self-sufficiency for clients as quickly as possible. By working with community partners, the department helps clients escape poverty and achieve full employment; prevents abuse and neglect among children and vulnerable adults; strengthens families and promotes positive youth development; provides public health insurance for low-income adults and children; and empowers people with disabilities so they can enter or re-enter the workforce.

## Financial Highlights

For fiscal year ended June 30, 2013, the department reported total revenues and total expenses of approximately \$2.8 billion. Revenues consisted of \$1.1 billion in state revenues and \$1.7 billion in program revenues. Program revenues consist primarily of operating grants from the federal government. Revenues from these federal grants paid for 59.7 percent of the cost of the department's activities.

DHS Revenues by Type, FY 2013





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## Auditors' Opinions

Financial Statements: **+**  
Unmodified opinion

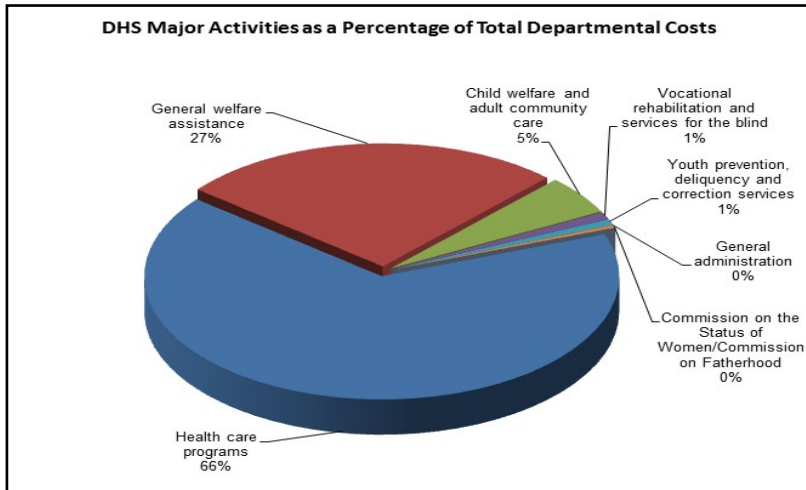
Federal Compliance: **-**  
Qualified opinion

## Issues of Concern

**Material Weaknesses**  
**13**  
**Significant Deficiencies**  
**3**

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<http://auditor.hawaii.gov/>

Health care and general welfare assistance programs comprised 66% and 27%, respectively, of the total costs. The following chart presents each major activity as a percent of the total cost of all department activities.



Total assets of the department exceeded total liabilities by \$41 million. There was a deficit of \$21 million in the unrestricted balance. Total assets was approximately \$300 million and total liabilities was \$259 million. Total assets was comprised of cash of \$133 million, receivables of \$106 million, and net capital assets of \$61 million.

## Auditors' Opinions

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

## Findings

### Material Weaknesses (13)

#### Financial Reporting

- The department under-reported liabilities by approximately \$70 million when preparing its financial statements.

#### Compliance

- Proper case documentation to support eligibility determinations were not maintained (2);
- Eligibility applications and annual eligibility re-verifications were not completed timely;
- ADP system risk analysis and system security review was not performed;
- Lack of back-end controls over utilization, fraud and accuracy of Medicaid claims;
- Individualized plans for employment were not being timely updated;
- Eligibility determinations were not timely completed;
- Lack of compliance with the Federal Funding Accountability and Transparency Act (3);
- Clerical errors resulted in inaccurate Child Care reimbursements;
- Lack of monitoring for the tracking of earmarked funds of a certain program.

### Significant Deficiencies (3)

#### Compliance

- Proper case documentation to support eligibility determinations was not maintained for the Adoptions Assistance Program;
- Procedures were not followed to verify the suspension and debarment requirements;
- Subcontractor monitoring procedures over the Medicaid Drug Rebate Program was lacking.

For the complete report and financial statements visit our website at:  
[http://files.hawaii.gov/auditor/Reports/2013\\_Audit/DHS2013pdf](http://files.hawaii.gov/auditor/Reports/2013_Audit/DHS2013pdf)