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

Constitutional Mandate

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

Financial Audit of the Department of Human Services

Financial Statements, Fiscal Year Ended June 30, 2014

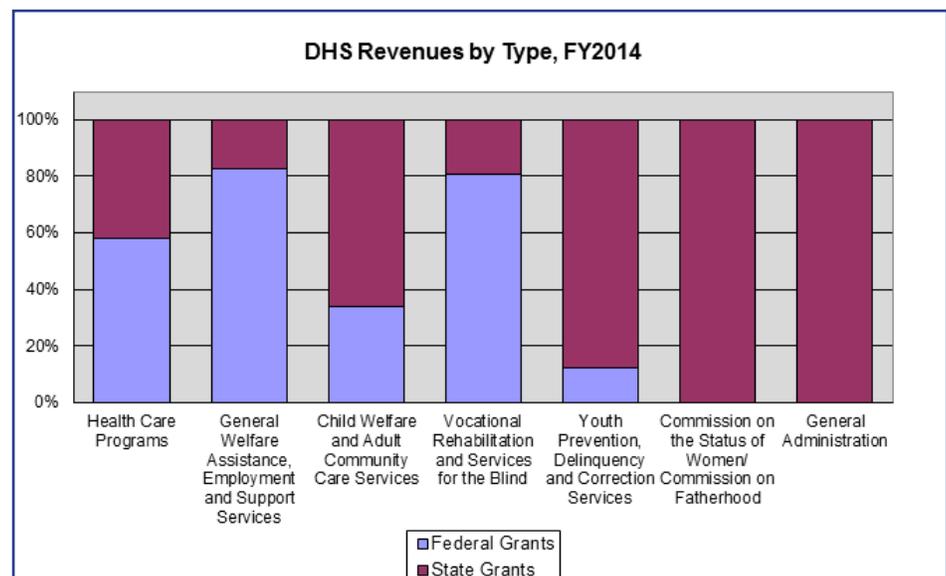
The primary purpose of the audit was to form an opinion on the fairness of the presentation of the financial statements for the Department of Human Services, as of and for the fiscal year ended June 30, 2014, and to comply with the requirements of federal OMB circular A-133, which established audit requirements 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. The department is committed to maintaining a high level of quality, efficiency, and effectiveness in its services. The department is part of the executive branch of the State of Hawai'i and includes the following activities: Health Care Programs; General Welfare Assistance; Employment and Support Services; Child Welfare and Adult Community Care Services; Vocational Rehabilitation and Services for the Blind; Youth Prevention, Delinquency and Correction Services; General Administration, Commission on the Status of Women, and Commission on Fatherhood.

Financial Highlights

For the fiscal year ended June 30, 2014, the department reported total revenues and total expenses of approximately \$3.0 billion. Revenues consisted of \$1.1 billion of state revenues and \$1.9 billion in program revenues. Program revenues consist primarily of operating grants from the federal government. Revenues from these federal grants paid for 64.6 percent of the cost of the department's activities.





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Auditors' Opinions

Financial Statements: **+**
 Unmodified opinion

Federal Compliance: **-**
 Qualified opinion

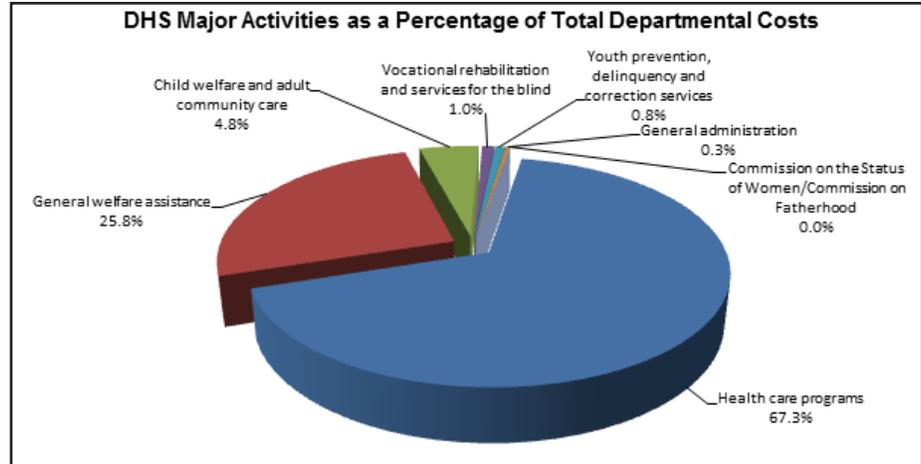
Issues of Concern

Material Weaknesses
19

Significant Deficiencies
1

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Health care and general welfare assistance programs comprised 67.3 and 25.8 percent, 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 \$126 million. The department had an unrestricted net position of \$20 million. Total assets were approximately \$415 million and total liabilities were \$289 million. Total assets were comprised of cash of \$147 million, receivables of \$162 million, and net capital assets of \$106 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 (19):

Financial Reporting

- The department over- or under-accrued amounts related to various accounts when preparing its financial statements.

Compliance

- Eligibility applications, determinations, and annual re-verifications were not completed in a timely manner (2);
- Lack of post-payment review process over utilization, fraud, and accuracy of Medicaid claims;
- Failure to revise participant's individualized plan for employment;
- Procedures were not followed to verify the suspension and debarment requirements;
- Clerical errors resulted in inaccurate reimbursements or improper data reported (2);
- Lack of compliance with the Federal Funding Accountability and Transparency Act (2);
- Lack of monitoring for the tracking of earmarked funds;
- Proper case documentation to support eligibility determinations and child support non-cooperation were not maintained and benefit amounts were calculated incorrectly (6);
- Lack of compliance with the maintenance of effort requirement; and
- Failure to properly track and report the amount of work activity by participants.

Significant Deficiency:

- Subcontractor monitoring procedures were lacking in the Medicaid Rebate Program.

Other Matters

- Proper case documents not maintained for the Medical Assistance Program.

For the complete report and financial statements visit our website at:
http://files.hawaii.gov/auditor/Reports/2014_Audit/DHS2014