

**FINANCIAL AUDIT OF THE  
DEPARTMENT OF HEALTH  
STATE OF HAWAII**

For the Fiscal Year Ended June 30, 2015

**Submitted by  
The Auditor  
State of Hawaii**



March 29, 2016

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 Health of the State of Hawaii (DOH) as of and for the fiscal year ended June 30, 2015. Our audit was conducted in accordance with the terms of our contract with the Office of the Auditor, State of Hawaii and with the requirements of the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the *Compliance Supplement for Single Audits of State and Local Governments*.

## **OBJECTIVES OF THE AUDIT**

The primary purpose of our audit was to form opinions on the fairness of the presentation of the DOH's basic financial statements as of and for the fiscal year ended June 30, 2015, and to comply with the requirements of OMB Circular A-133, which establishes audit requirements for state and local governments that receive federal financial assistance. More specifically, the objectives of the audit were as follows:

1. To provide a basis for opinions on the fairness of the DOH's basic financial statements and the schedule of expenditures of federal awards as of and for the fiscal year ended June 30, 2015.
2. To consider the DOH's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements.
3. To perform tests of the DOH's compliance with laws, regulations, contracts, and grants, including applicable provisions of the Hawaii Public Procurement Code (Chapter 103D and 103F, Hawaii Revised Statutes), that could have a direct and material effect on the determination of financial statement amounts.
4. To consider the DOH's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinions on compliance and to test and report on internal control over compliance.

5. To provide opinions on the DOH's compliance with applicable laws, regulations, contracts, and grants that could have a direct and material effect on each major program.

## SCOPE OF THE AUDIT

Our audit was conducted 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 DOH for the fiscal year ended June 30, 2015.

## ORGANIZATION OF THE REPORT

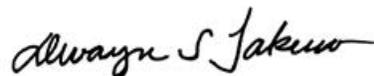
This report is presented in six parts as follows:

- Part I The basic financial statements and related notes to the financial statements of the DOH as of and for the fiscal year ended June 30, 2015, and our opinion on the basic financial statements and supplementary information.
- Part II Our report on internal control over financial reporting and on compliance and other matters.
- Part III Our report on compliance for 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.
- Part VI Corrective action plan as provided by the DOH.

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

Sincerely,

N&K CPAs, Inc.



Dwayne Takeno  
Principal

**DEPARTMENT OF HEALTH  
STATE OF HAWAII**

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**PART I**  
**FINANCIAL SECTION**

## INDEPENDENT AUDITOR'S REPORT

To the Auditor  
State of Hawaii

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of Hawaii, Department of Health (Department), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Department'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, the business-type activities, each major fund, and the aggregate remaining fund information of the Department, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof and budgetary comparisons for each major fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

As discussed in Note A, the financial statements of the Department are intended to present the financial position, the changes in the financial position and, where applicable, cash flows and budgetary comparisons, of only that portion of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of Hawaii that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2015, the changes in its financial position, or, where applicable, its cash flows and budgetary comparisons, for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Notes A and K to the financial statements, the Department adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68* that establishes standards for the accounting and financial reporting for pensions that are provided to employees of state and local governments. Our opinion is not modified with respect to this matter.

## **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 11 through 21 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.

### *Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements. The schedule of expenditures of federal awards, as required by Office of Management and Budget 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.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 7, 2016 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

*N&K CPAs, Inc.*

Honolulu, Hawaii

March 7, 2016

**Department of Health  
State of Hawaii  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2015**

This Management's Discussion and Analysis ("MD&A") presents a narrative overview and analysis of the financial activities and performance of the State of Hawaii, Department of Health (the "Department") during the fiscal year that ended on June 30, 2015. Please read it in conjunction with the Department's financial statements and the related notes to the financials (which follow this section). The following is a brief description of the contents of those three sections:

**Overview of the Basic Financial Statements**

This MD&A serves as an introduction to the Department's basic financial statements. 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 information about the Department's overall financial position and results of operations. These statements, which are presented on an accrual basis of accounting, consist of the statement of net position and the statement of activities.

The government-wide statements report information about the Department as a whole using accounting methods similar to those used by private sector companies. The statement of net position provides both short-term and long-term information about the Department's financial position, which assists in assessing the Department's economic condition at the end of the fiscal year. All of the current year revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. The government-wide financial statements include two statements:

- The *Statement of Net Position* presents all of the Department's assets, deferred outflows, liabilities and deferred inflows, with the difference reported as "net position." Over time, increases and decreases in the Department's net position may serve as a useful indicator of whether the financial position of the Department is improving or deteriorating.
- The *Statement of Activities* presents information showing how the Department's net position changed during the most recent fiscal year.

The government-wide financial statements of the Department are further divided into two categories:

- *Governmental activities* - The activities in this section are primarily supported by State of Hawaii appropriations, funds from the tobacco settlement, beverage container deposit administrative fees, federal grants, taxes, and other fees.

**Department of Health  
State of Hawaii  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
June 30, 2015**

- *Business-type activities* - These functions normally are intended to recover all or a significant portion of their costs through user's fees and charges to external users. These activities include the Department's two revolving loan funds.

### **Fund Financial Statements**

The fund financial statements include the Department's: (1) governmental funds, for which activities are funded primarily from appropriations from the State of Hawaii, by revenues from the master tobacco settlement agreement between the states and tobacco companies, beverage container deposit program collections, mental health and substance abuse, and federal grants; (2) proprietary funds, which consist of revolving loan funds and are reported similar to business activities; and (3) fiduciary funds. The governmental funds are presented on the modified accrual basis of accounting. The proprietary and the fiduciary funds are presented on the accrual basis of accounting.

The fund financial statements provide more detailed information about the Department's most significant funds and not the Department as a whole. In these statements, the financial activities of the Department are recorded in individual funds. 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 Department uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Funds are reported as a major fund or a non-major (other) fund. The Governmental Accounting Standards Board ("GASB") issued Statement 34, *Basic Financial Statements – Management's Discussion and Analysis – for State and Local Governments*, which sets forth the minimum criteria for the determination of major funds. The non-major funds are combined in a column in the fund financial statements.

The fund financial statements also include the budgetary comparison statements, which include reconciliations for the general fund, Hawaii tobacco settlement special fund, deposit beverage container deposit special fund and mental health substance abuse special fund, comparing the excess of revenues over expenditures presented on a budgetary basis to the excess (deficiency) of revenues over expenditures presented in conformity with U.S. generally accepted accounting principles ("GAAP") as presented in the governmental fund financial statements.

To reiterate, the Department has three types of funds:

- *Governmental funds* – Governmental funds are used to account for essentially the same functions reported in the governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of expendable resources as well as on the balances of expendable resources available at the end of the fiscal year.

**Department of Health**  
**State of Hawaii**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**June 30, 2015**

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. Both the governmental fund balance sheet and statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate comparison between governmental funds and governmental activities in the government-wide financial statements.

- *Proprietary funds* - Proprietary funds are used to report activities that operate more like those of commercial enterprises. They are known as enterprise funds because they charge fees for services provided to outsiders. They are used to report the same functions presented as business-type activities in the government-wide financial statements. The Department uses enterprise funds to account for the operations of its two revolving loan funds each of which are considered to be major funds of the Department.
- *Fiduciary funds* - The fiduciary funds account for net position held in a trustee or agent capacity for others. These funds are not reflected in the government-wide financial statements since these resources are not available to support the Department's programs.

### **Notes to the Basic Financial Statements**

The *Notes to Basic Financial Statements* section provides additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements follow the basic financial statements.

### **Government-wide Financial Highlights**

- The Department's total net position increased from \$879.3 million as of June 30, 2014 to \$903.5 million as of June 30, 2015, or by approximately \$24.2 million. The total increase in net position was attributed to increases in the Department's governmental activities net position of \$4.1 million and business-type activities' net position of \$23.5 million during the year and a prior period restatement resulting in a reduction of net position as of June 30, 2014 of \$3.3 million.
- The Department's governmental funds reported an aggregate increase in fund balance of approximately \$4.0 million during the year totaling \$220.0 million at June 30, 2015. Note that this is based on the fund balance at June 30, 2014 of \$216.0 million.

**Department of Health  
State of Hawaii  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
June 30, 2015**

The Department's proprietary funds, consisting of two revolving loan funds, reported an increase in net position of \$23.5 million for FY 2015. Total net position was \$644.3 million at June 30, 2015 compared to the FY 2014 year-end total of \$620.8 million.

**Government-Wide Financial Analysis**

This section includes condensed government-wide financial information and analysis.

**Condensed Statement of Net Position  
June 30,  
(\$000)**

	Governmental		Business-Type		Total	
	Activities		Activities			
	2015	2014	2015	2014	2015	2014
Current assets	\$ 321,948	\$ 304,830	\$ 227,488	\$ 231,292	\$ 549,436	\$ 536,122
Capital assets	63,488	61,487	920	260	64,408	61,747
ARRA advances	--	--	7,438	12,488	7,438	12,488
Loans receivable, noncurrent	--	--	<u>415,522</u>	<u>383,044</u>	<u>415,522</u>	<u>383,044</u>
Total assets	<u>385,436</u>	<u>366,317</u>	<u>651,368</u>	<u>627,084</u>	<u>1,036,804</u>	<u>993,401</u>
Deferred outflows of resources related to pensions	--	--	<u>537</u>	--	<u>537</u>	--
Current liabilities	109,248	93,018	686	770	109,934	93,788
Long term liabilities	<u>16,905</u>	<u>18,147</u>	<u>6,252</u>	<u>2,165</u>	<u>23,157</u>	<u>20,312</u>
Total liabilities	126,153	111,165	6,938	2,935	133,091	114,100
Deferred inflows of resources related to pensions	--	--	<u>712</u>	--	<u>712</u>	--
Net position						
Net investment in capital assets	63,488	61,487	920	260	64,408	61,747
Restricted	54,493	49,080	643,335	623,889	697,828	672,969
Unrestricted	<u>141,302</u>	<u>144,585</u>	--	--	<u>141,302</u>	<u>144,585</u>
Total net position	<u>\$ 259,283</u>	<u>\$ 255,152</u>	<u>\$ 644,255</u>	<u>\$ 624,149</u>	<u>\$ 903,538</u>	<u>\$ 879,301</u>

Net position for 2014 was not restated as presented above for the implementation of GASB 68 and for capital assets erroneously expensed.

As noted earlier, changes in net position may serve over time as a useful indicator of the Department's financial position. As of June 30, 2015, the Department's total net position was approximately \$903.5 million.

**Department of Health  
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MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
June 30, 2015**

At June 30, 2015, in addition to equity in cash and cash equivalents in the state treasury approximating \$378.0 million, the Department had total loans receivable from county governments in the amount of \$450.6 million arising from its two revolving loan funds. The Department had total liabilities of \$133.1 million at June 30, 2015 of which \$12.1 million relates to accrued wages and employee benefits payable. Approximately \$54.1 million in liabilities relate to vouchers and contracts payable. At June 30, 2015, restricted net position was \$697.8 million. The restrictions arise from legal and contractual agreements.

**Condensed Statement of Activities  
Fiscal Years Ended June 30,  
(\$000)**

	Governmental		Business-Type		Total	
	Activities		Activities			
	2015	2014	2015	2014	2015	2014
<b>Revenue</b>						
Program revenues						
Charges for services	\$ 24,771	\$ 15,698	\$ 5,805	\$ 5,633	\$ 30,576	\$ 21,331
Operating grants and contributions	110,986	126,322	30,426	30,893	141,412	157,215
General revenues						
State appropriated funds	413,282	411,119	--	--	413,282	411,119
Non-imposed fringe benefits	53,972	49,850	--	--	53,972	49,850
Hawaii tobacco settlement special fund	46,879	52,321	--	--	46,879	52,321
Environmental fees and taxes	<u>58,652</u>	<u>54,116</u>	<u>--</u>	<u>--</u>	<u>58,652</u>	<u>54,116</u>
Total revenues	708,542	709,426	36,231	36,526	744,773	745,952
<b>Expenses</b>						
General administration	41,757	41,626	--	--	41,757	41,626
Environmental health administration	59,601	65,310	16,806	9,148	76,407	74,458
Behavioral health administration	309,306	210,827	--	--	309,306	210,827
Health resources administration	<u>264,751</u>	<u>293,246</u>	<u>--</u>	<u>--</u>	<u>264,751</u>	<u>293,246</u>
Total expenses	<u>675,415</u>	<u>611,009</u>	<u>16,806</u>	<u>9,148</u>	<u>692,221</u>	<u>620,157</u>
Excess before transfers	33,127	98,417	19,425	27,378	52,552	125,795
Transfers	<u>(28,996)</u>	<u>(46,658)</u>	<u>4,025</u>	<u>4,025</u>	<u>(24,971)</u>	<u>(42,633)</u>
Change in net position	4,131	51,759	23,450	31,403	27,581	83,162
<b>Net position</b>						
Beginning of year	<u>255,152</u>	<u>203,393</u>	<u>620,805</u> *	<u>592,746</u>	<u>875,957</u>	<u>796,139</u>
End of year	\$ <u>259,283</u>	\$ <u>255,152</u>	\$ <u>644,255</u>	\$ <u>624,149</u>	\$ <u>903,538</u>	\$ <u>879,301</u>

\* The net position at beginning of year is restated by \$(3,767,626) for the implementation of GASB 68 and by \$423,234 for capital assets that were erroneously expensed.

**Department of Health  
State of Hawaii  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
June 30, 2015**

Governmental activities increased the Department's net position by \$4.1 million in FY 2015, which was a 1.6% increase from FY 2014. The overall increase in Governmental activities is the result of higher revenues from the several areas: General revenues of state appropriated funds (\$2.2M), non-imposed fringe benefits (\$4.1M), deposit beverage container fees (\$2.6M) and tobacco taxes (\$1.8M).

Revenues of the Department's business-type activities, which decreased by \$0.3 million from 2014, consist of the Department's environmental loan programs - one for water pollution control and the other for drinking water treatment - were generated from charges for services, program investment income, and federal assistance program funds as well as state matching funds. Charges for services consist primarily of administration loan fees and interest income on loans related to the Department's two revolving loan programs. The majority of the programs' investment income is from the Department's participation in the State Treasury Investment Pool System.

For the fiscal year ended June 30, 2015, business-type activities increased the Department's net position by \$23.5 million to \$644.3 million as compared to the fiscal year ending June 30, 2014.

Total government-wide expenses for FY 2015 were \$692.2 million of which \$675.4 million was for governmental activities. As compared to FY 2014, total government-wide expenses were \$620.2 million of which \$611.0 million was for governmental activities. Overall, the Department is organized into four major administrations.

The Department's Behavioral Health Services Administration expended a significant 44.7 percent or \$309.3 million of departmental funds with an increase of \$98.5 million over FY 2014. This administration is responsible for providing available and coordinated mental health and substance abuse treatment and prevention programs. Programs within this administration are:

- Adult Mental Health Division ("AMHD") that includes the Hawaii State Hospital and Community Mental Health Center Branches;
- Child and Adolescent Mental Health Division ("CAMHD") which includes seven Family Guidance Centers and the Family Court Liaison Branches; and
- Alcohol and Drug Abuse Division ("ADAD") which plans for and purchases substance abuse prevention and treatment services for adolescents and adults.
- Developmental Disabilities Division ("DDD") that services disabled clients in Hawaii while addressing the conditions of the Makin Settlement;

**Department of Health  
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MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
June 30, 2015**

The increase in expenses is primarily attributed to DOH's reorganization of the Developmental Disabilities Division (DDD). The DDD was moved from Health Resources Administration (HRA) to Behavioral Health Administration (BHA) in fiscal year 2015.

The Department's Health Resources Administration expended approximately 38.2 percent of department funds. FY 2015 expenses for this Administration decreased \$28.5 million compared to FY 2014. Major programs in this administration include:

- Family Health Services Division ("FHSD") that administers the State's Early Intervention program for children zero to three in compliance with the Federal Individual with Disabilities Education Act, Part C as well as serving children, youth and families through its three branches, namely, Children with Special Health Needs, Maternal and Child Health, and Women, Infants and Children;
- Emergency Medical Services and Injury Prevention System Branch ("EMSIPSB") that includes the State's mandated Emergency Medical Services, which operates the State's emergency ambulance service in the four major counties, and the injury prevention program;
- Communicable Disease and Public Health Nursing Division (CDPHND) which strives to reduce morbidity and mortality from communicable diseases in Hawaii, to improve the health of individuals and communities, and to support the medical marijuana registry program.
- Disease Outbreak Control Division which provides immunization and disease investigation services as well as provides emergency response to disease outbreaks and potential acts of bioterrorism;
- Office of Health Care Assurance (OHCA) which manages the state licensing and Federal certification of medical and health care facilities, agencies, and services provided throughout the State in order to ensure acceptable standards of care provided and to ensure compliance with State and Federal requirements. OHCA is also responsible for the rollout and management of the Medical Marijuana Dispensaries.
- General Medical and Preventative Services Division provides public health dental services to the State's disabled clientele and public health nursing services.

The decrease in expenditures is primary due to the DOH's reorganization of DDD and the Office of Health Care Assuranc. The DDD was moved from HRA to BHA and the OHCA was moved from EHA to HRA.

**Department of Health  
State of Hawaii  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
June 30, 2015**

The Department's Environmental Health Administration is responsible for the management of the clean air, clean water, solid and hazardous waste, public health sanitation, vector control, and purity of food and drugs. It expended approximately 11.0 percent of the departmental funds with an increase of \$1.9 million expended versus FY 2014 on a government-wide basis. This administration also manages both the Water Pollution Control Revolving and the Drinking Water Treatment Revolving Loan Funds.

Finally, the Department's General Administration provides the overall leadership and oversight for the Department. It includes administrative support staff, three district health offices, and five administratively attached agencies. This administration expends approximately 6.0 percent of the departmental funds.

**Governmental Funds Financial Analysis**

The following table presents revenues and expenditures of the governmental funds for FY 2015 and FY 2014 (\$000):

	<u>2015</u>	<u>2014</u>
<b>Revenues</b>		
State general fund allotments	\$ 413,282	\$ 417,407
Intergovernmental	110,331	95,741
Hawaii tobacco settlement special fund	46,879	52,321
Deposit beverage container deposit special fund	26,758	23,760
Non-imposed fringe benefits	53,972	49,850
Taxes, fees, fines and other	57,568	70,934
Investment income	<u>454</u>	<u>289</u>
Total revenues	709,244	710,302
<b>Expenditures</b>		
General administration	41,302	45,251
Environmental health	60,959	65,378
Behavioral health	307,429	217,312
Health resources	<u>263,844</u>	<u>292,063</u>
Total expenditures	<u>673,534</u>	<u>620,004</u>
Excess of revenues over expenditures before transfers	\$ <u>35,710</u>	\$ <u>90,298</u>

The governmental funds revenue consist of the Department's general fund, Hawaii tobacco settlement special fund ("HTSSF"), deposit beverage container deposit special fund ("DBCDSF"), intergovernmental (federal) funds, taxes, fees, fines and investment income.

**Department of Health  
State of Hawaii  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
June 30, 2015**

During the fiscal year ended June 30, 2015, general fund revenues were \$455.6 million, including \$53.8 million for fringe benefits paid directly from the State general fund. General fund expenditures were \$458.8 million.

For FY 2015, the HTSSF earned revenues of \$46.9 million. A net amount of \$28.3 million was transferred to other State departments and agencies of which \$4.5 million was for the Children's Health Insurance Program of the Department of Human Services, \$11.6 million was for the University of Hawaii to pay debt service on revenue bonds to support construction of a new health and wellness center, to include a new medical school and bioresearch center in Kakaako, and \$12.9 million was required to be transferred to the State's General Fund.

In FY 2015, the DBCDSF earned revenues of \$26.8 million from beverage container deposit administrative fees and unredeemed containers income. Of this amount received, \$20.3 million in expenditures were paid to redemption centers or utilized to fund the program. The fund collected \$47.9 million in deposits from distributors and repaid \$35.7 million in deposits to consumers during FY 2015.

The proprietary funds consist of two funds: Water Pollution Control Revolving Fund ("WPCRF") and Drinking Water Treatment Revolving Loan Fund ("DWTRLF") and are reported in the government-wide statement of net position and statement of activities as business-type activities.

The WPCRF accounts for federal and state funds used to provide loans to county governments for the construction of wastewater treatment facilities and the repayment of principal, interest and fees from such loans and investment of such monies. During FY 2015, WPCRF received \$10.4 million and \$2.2 million of federal and state funds, respectively. WPCRF also disbursed \$26.7 million in loan proceeds and collected \$27.0 million in principal repayments in 2015. As compared to 2014, the fund collected \$8.4 million and \$2.2 million in federal and state contributions, and disbursed \$59.9 million in loan proceeds and collected \$27.4 million in principal payments.

The DWTRLF accounts for federal and state match funds used to provide loans and other types of financial assistance to public water systems for drinking water infrastructure and the repayment of principal interest and fees from such loans and the investment of such monies. During FY 2015, DWTRLF received \$19.2 million and \$1.8 million of federal and state funds, respectively. DWTRLF also disbursed \$48.4 million in loan proceeds and collected \$6.5 million in principal repayments in 2015. As compared to 2014, the DWTRLF collected \$22.2 million and \$1.8 million in federal and state contributions, and disbursed \$23.8 million in loan proceeds and collected \$4.8 million in principal payments.

The Department accounts for funds held as an agent and/or trustee for certain individuals in the fiduciary funds.

**Department of Health  
State of Hawaii  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
June 30, 2015**

**Budgetary Analysis**

The following budget information relates to the general fund, Hawaii tobacco settlement special fund, deposit beverage container deposit special fund and mental health substance abuse special fund for 2015:

	<b>Budgeted Amounts (\$000)</b>		<b>Actual on a Budgetary Basis (\$000)</b>
	<b>Original</b>	<b>Final</b>	
<b>General fund</b>			
Revenues	\$ 408,913	\$ 420,986	\$ 410,975
Expenditures			
General administration	27,328	28,419	27,884
Environmental health	17,246	18,258	19,280
Behavioral health	254,432	259,620	181,486
Health resources	109,907	114,689	182,325
<b>Hawaii tobacco settlement special fund</b>			
Revenues	57,099	57,223	46,881
Expenditures	57,099	57,223	51,673
<b>Deposit beverage container deposit special fund</b>			
Revenues	81,851	81,851	62,697
Expenditures	81,851	81,851	62,937
<b>Mental health substance abuse fund</b>			
Revenues	12,070	12,070	6,609
Expenditures	12,070	12,070	6,016

For the Hawaii tobacco settlement special fund, the actual expenditures of \$51.7 million in FY 2015 were \$4.8 million more than the actual revenues received.

The deposit beverage container program recognized revenues on a budgetary basis of \$62.7 million, which is based on the actual number of containers sold. In fiscal year 2014, there were 933.7 million containers sold. The amount of containers sold increased to 958.6 million in fiscal year 2015.

For the mental health substance abuse fund, the actual revenues received of \$6.6 million in FY 2015 were \$0.6 million more than the actual expenditures.

**Capital Assets**

As of June 30, 2015, the Department's governmental activities had invested approximately \$63.5 million (net of accumulated depreciation) in a broad range of capital assets. See Note D to the Department's financial statements for a description of capital assets activities for the fiscal year ended June 30, 2015.

**Department of Health  
State of Hawaii  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
June 30, 2015**

**Capital Assets  
Governmental Activities  
June 30, 2015  
(\$000)**

	<b>2015</b>	<b>2014</b>
Land	\$ 1,018	\$ 1,018
Land improvements	3,305	3,305
Buildings and building improvements	165,197	158,938
Furniture and equipment	23,696	21,857
Total	193,216	185,118
Accumulated depreciation	129,728	123,631
Total capital assets, net	\$ 63,488	\$ 61,487

**Currently Known Facts, Decisions, or Conditions**

Although the State's economy improved since last fiscal year, the State continued its cautious approach regarding expenditures. Therefore, the Department has continued to evaluate and monitor the statewide service delivery system of the adult mental health program in order to improve service delivery and to contain operational costs.

In FY 2015, AMHD serviced 8,282 clients as compared to the 10,408 clients serviced in FY 2014. AMHD's Access Line continues to provide the community with a resource site for information as well as a referral point for possible clients.

In the developmental disabilities program, the number of clients increased by 46 clients in FY 2015. In FY 2015, the program served 2,661 clients in the home and community-based waiver program as compared to 2,615 clients served in FY 2014.

Further, the Federal Medical Assistance Percentage ("FMAP") decreased from 49.52 percent to 48.15 percent for the period October 2013 to September 2014. The FMAP decreased from 48.15 percent to 47.77 percent effective October 2014 to September 2015. The FY 2015 year-end Average Cost per Client ("APC") increased to \$45,792 as compared to the FY 2014 year-end APC of \$40,808.

And lastly, the WPCRF executed a total of four loan agreements for \$61.4 million. DWTRLF executed a total of six loan agreements for \$48.6 million during FY 2015. Further, the WPCRF expected to execute a total of six loan agreements in the amount of \$18.8 million while the DWTRLF expected to execute a total of thirteen loan agreements for \$64.0 million in FY 2016.

**Department of Health  
State of Hawaii  
STATEMENT OF NET POSITION  
June 30, 2015**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>			
Current assets			
Equity in cash and cash equivalents and investments in State Treasury	\$ 187,613,441	\$ 190,366,665	\$ 377,980,106
Receivables			
Due from State Treasury	98,134,022	48,573	98,182,595
Due from other State agencies	3,416,830	--	3,416,830
Due from SRF	--	23,837	23,837
Accrued interest and loan fees	125,962	1,687,305	1,813,267
Accounts receivable	1,447,012	--	1,447,012
Due from federal government	5,910,666	301,610	6,212,276
Tobacco settlement receivable	25,300,000	--	25,300,000
Current maturities of loans receivable	--	<u>35,060,492</u>	<u>35,060,492</u>
	<u>134,334,492</u>	<u>37,121,817</u>	<u>171,456,309</u>
Total current assets	<u>321,947,933</u>	<u>227,488,482</u>	<u>549,436,415</u>
ARRA advances	--	7,438,075	7,438,075
Loans receivable, net of current maturities	--	415,522,231	415,522,231
Capital assets, net of accumulated depreciation	<u>63,487,787</u>	<u>919,744</u>	<u>64,407,531</u>
Total assets	<u>385,435,720</u>	<u>651,368,532</u>	<u>1,036,804,252</u>
Deferred outflows related to pensions	<u>--</u>	<u>536,527</u>	<u>536,527</u>
Total assets and deferred outflows of resources	<u>\$ 385,435,720</u>	<u>\$ 651,905,059</u>	<u>\$ 1,037,340,779</u>

See accompanying notes to the basic financial statements.

**Department of Health  
State of Hawaii  
STATEMENT OF NET POSITION (Continued)  
June 30, 2015**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>			
Current liabilities			
Vouchers and contracts payable	\$ 53,872,926	\$ 185,725	\$ 54,058,651
Accrued wages and employee benefits payable	11,729,143	367,331	12,096,474
Unearned revenue	2,181,552	--	2,181,552
Accrued vacation, current portion	9,789,851	132,604	9,922,455
Workers' compensation liability	877,081	--	877,081
Due to other State agencies	28,979,443	--	28,979,443
Beverage container deposits	<u>1,817,994</u>	<u>--</u>	<u>1,817,994</u>
Total current liabilities	109,247,990	685,660	109,933,650
Accrued vacation, net of current portion	16,905,098	364,705	17,269,803
Net pension liability	--	3,735,935	3,735,935
Other postemployment benefits	<u>--</u>	<u>2,152,000</u>	<u>2,152,000</u>
Total liabilities	<u>126,153,088</u>	<u>6,938,300</u>	<u>133,091,388</u>
Deferred inflows of resources related to pensions	<u>--</u>	<u>712,070</u>	<u>712,070</u>
Net position			
Net investment in capital assets	63,487,787	919,744	64,407,531
Restricted for			
Loans	--	643,334,945	643,334,945
Federal programs	1,259,426	--	1,259,426
Trust fund programs	3,886,767	--	3,886,767
Medicaid programs	49,346,968	--	49,346,968
Unrestricted	<u>141,301,684</u>	<u>--</u>	<u>141,301,684</u>
Total net position	<u>259,282,632</u>	<u>644,254,689</u>	<u>903,537,321</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 385,435,720</u>	<u>\$ 651,905,059</u>	<u>\$ 1,037,340,779</u>

See accompanying notes to the basic financial statements.

**Department of Health  
State of Hawaii  
STATEMENT OF ACTIVITIES  
Fiscal Year Ended June 30, 2015**

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government		
				Governmental Activities	Business-Type Activities	Total
Primary government						
Governmental activities						
General administration	\$ 41,757,328	\$ 1,780,550	\$ 15,261,940	\$ (24,714,838)	\$ --	\$ (24,714,838)
Environmental health administration	59,601,927	8,502,945	11,178,467	(39,920,515)	--	(39,920,515)
Behavioral health services administration	309,305,781	767,660	15,590,061	(292,948,060)	--	(292,948,060)
Health resources administration	<u>264,751,335</u>	<u>13,719,377</u>	<u>68,955,396</u>	<u>(182,076,562)</u>	<u>--</u>	<u>(182,076,562)</u>
Total governmental activities	675,416,371	24,770,532	110,985,864	(539,659,975)	--	(539,659,975)
Business-type activities						
Environmental health loan program	<u>16,806,184</u>	<u>5,805,038</u>	<u>30,426,185</u>	<u>--</u>	<u>19,425,039</u>	<u>19,425,039</u>
Total business-type activities	<u>16,806,184</u>	<u>5,805,038</u>	<u>30,426,185</u>	<u>--</u>	<u>19,425,039</u>	<u>19,425,039</u>
Total primary government	\$ <u>692,222,555</u>	\$ <u>30,575,570</u>	\$ <u>141,412,049</u>	(539,659,975)	19,425,039	(520,234,936)
General revenues						
State general fund allotments, net				413,282,033	--	413,282,033
Non-imposed employee fringe benefits				53,972,411	--	53,972,411
Environmental response tax				1,236,065	--	1,236,065
Deposit beverage container fee				26,576,000	--	26,576,000
Advance glass disposal fee				851,937	--	851,937
Tobacco tax				29,989,029	--	29,989,029
Hawaii tobacco settlement special fund				46,879,075	--	46,879,075
Transfers				<u>(28,996,194)</u>	<u>4,025,000</u>	<u>(24,971,194)</u>
Total general revenues and transfers				<u>543,790,356</u>	<u>4,025,000</u>	<u>547,815,356</u>
Change in net position				4,130,381	23,450,039	27,580,420
Net position at July 1, 2014, as previously reported				255,152,251	624,149,042	879,301,293
Prior period adjustment				--	(3,344,392)	(3,344,392)
Net position at July 1, 2014, as restated				<u>255,152,251</u>	<u>620,804,650</u>	<u>875,956,901</u>
Net position at June 30, 2015				\$ <u>259,282,632</u>	\$ <u>644,254,689</u>	\$ <u>903,537,321</u>

See accompanying notes to the basic financial statements.

**Department of Health  
State of Hawaii  
BALANCE SHEET - GOVERNMENTAL FUNDS  
June 30, 2015**

	<u>General</u>	<u>Hawaii Tobacco Settlement</u>	<u>Deposit Beverage Container Deposit</u>	<u>Mental Health Substance Abuse</u>	<u>Other Funds</u>	<u>Total Governmental</u>
<b>ASSETS</b>						
Equity in cash and cash equivalents and investments in State Treasury	\$ --	\$ 20,666,298	\$ 26,761,823	\$ 45,511,393	\$ 94,673,927	\$ 187,613,441
Due from State Treasury	85,505,038	--	--	--	12,628,984	98,134,022
Due from other State agencies	--	--	--	372,000	3,044,830	3,416,830
Accrued interest receivable	--	654	--	53,294	72,014	125,962
Accounts receivable	--	--	1,447,012	--	--	1,447,012
Due from Federal government	--	--	--	--	5,910,666	5,910,666
Total assets	<u>\$ 85,505,038</u>	<u>\$ 20,666,952</u>	<u>\$ 28,208,835</u>	<u>\$ 45,936,687</u>	<u>\$ 116,330,421</u>	<u>\$ 296,647,933</u>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>Liabilities</b>						
Vouchers and contracts payable	\$ 30,822,763	\$ 846,470	\$ 3,433,358	\$ 1,233,189	\$ 17,537,146	\$ 53,872,926
Accrued wages and employee benefits	9,141,629	16,316	40,744	--	2,530,454	11,729,143
Unearned revenue	--	--	--	372,000	5,202,382	5,574,382
Due to other State agencies	--	3,679,443	--	--	--	3,679,443
Beverage container deposits	--	--	1,817,994	--	--	1,817,994
Total liabilities	<u>39,964,392</u>	<u>4,542,229</u>	<u>5,292,096</u>	<u>1,605,189</u>	<u>25,269,982</u>	<u>76,673,888</u>
<b>Fund balances</b>						
<b>Restricted to</b>						
Federal programs	--	--	--	--	1,259,426	1,259,426
Medicaid programs	--	--	--	44,331,498	2,580,470	46,911,968
Trust fund programs	--	--	--	--	3,886,767	3,886,767
<b>Committed to</b>						
Behavioral health administration	--	--	--	--	2,721,146	2,721,146
Environmental health administration	--	--	--	--	28,263,127	28,263,127
General administration	--	--	--	--	2,468,981	2,468,981
Health resources administration	--	--	--	--	37,480,894	37,480,894
Capital projects activities	--	--	--	--	12,399,628	12,399,628
Deposit beverage container program	--	--	22,916,739	--	--	22,916,739
Tobacco settlement program	--	16,124,723	--	--	--	16,124,723
<b>Assigned to</b>						
Behavioral health administration	32,803,798	--	--	--	--	32,803,798
Environmental health administration	864,113	--	--	--	--	864,113
General administration	15,211,195	--	--	--	--	15,211,195
Health resources administration	20,329,054	--	--	--	--	20,329,054
Unassigned	<u>(23,667,514)</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>(23,667,514)</u>
Total fund balance	<u>45,540,646</u>	<u>16,124,723</u>	<u>22,916,739</u>	<u>44,331,498</u>	<u>91,060,439</u>	<u>219,974,045</u>
Total liabilities and fund balance	<u>\$ 85,505,038</u>	<u>\$ 20,666,952</u>	<u>\$ 28,208,835</u>	<u>\$ 45,936,687</u>	<u>\$ 116,330,421</u>	<u>\$ 296,647,933</u>

See accompanying notes to the basic financial statements.

**Department of Health  
State of Hawaii  
RECONCILIATION OF THE GOVERNMENTAL FUNDS FUND BALANCE  
TO THE STATEMENT OF NET POSITION  
June 30, 2015**

Total fund balance - governmental funds	\$ 219,974,045
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore not reported as an asset in the governmental funds.	63,487,787
Compensated absences reported in the statement of net position do not require the use of current financial resources and therefore are not reported as liabilities in the governmental funds.	(26,694,949)
Workers' compensation liability reported in the statement of net position does not require the use of current financial resources and therefore is not reported as a liability in the governmental funds.	(877,081)
Earned revenues not collected within 60 days and therefore not available for current financial resources reported as unavailable revenues in the governmental funds.	<u>3,392,830</u>
Net position of governmental activities	\$ <u><u>259,282,632</u></u>

See accompanying notes to the basic financial statements.

**Department of Health  
State of Hawaii  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
Fiscal Year Ended June 30, 2015**

	<u>General</u>	<u>Hawaii Tobacco Settlement</u>	<u>Deposit Beverage Container Deposit</u>	<u>Mental Health Substance Abuse</u>	<u>Other Funds</u>	<u>Total</u>
<b>REVENUES</b>						
State allotment, net	\$ 401,785,504	\$ --	\$ --	\$ --	\$ 11,496,529	\$ 413,282,033
Intergovernmental	--	--	--	--	110,331,493	110,331,493
Hawaii tobacco settlement	--	46,879,075	--	--	--	46,879,075
Deposit beverage container deposit	--	--	26,757,207	--	--	26,757,207
Non-imposed employee fringe benefits	53,820,749	23,019	5,144	--	123,499	53,972,411
Taxes, fees, fines and other	--	--	--	1,901,820	55,666,035	57,567,855
Investment income	--	2,572	--	191,022	260,422	454,016
Total revenues	455,606,253	46,904,666	26,762,351	2,092,842	177,877,978	709,244,090
<b>EXPENDITURES</b>						
General administration	28,455,622	--	--	--	12,846,299	41,301,921
Environmental health	21,645,464	--	20,328,982	--	18,984,272	60,958,718
Behavioral health services	288,507,230	--	--	1,245,408	17,676,287	307,428,925
Health resources	120,158,017	20,981,998	--	--	122,704,407	263,844,422
Total expenditures	458,766,333	20,981,998	20,328,982	1,245,408	172,211,265	673,533,986
Excess of revenues over expenditures	(3,160,080)	25,922,668	6,433,369	847,434	5,666,713	35,710,104
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in	--	7,719,981	--	6,342,090	60,658,302	74,720,373
Transfers out	(7,547,255)	(36,016,535)	--	(2,572,842)	(60,325,817)	(106,462,449)
Total other financing sources (uses)	(7,547,255)	(28,296,554)	--	3,769,248	332,485	(31,742,076)
Net change in fund balance	(10,707,335)	(2,373,886)	6,433,369	4,616,682	5,999,198	3,968,028
Fund balance at July 1, 2014	56,247,981	18,498,609	16,483,370	39,714,816	85,061,241	216,006,017
Fund balance at June 30, 2015	\$ 45,540,646	\$ 16,124,723	\$ 22,916,739	\$ 44,331,498	\$ 91,060,439	\$ 219,974,045

**Department of Health  
State of Hawaii  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
Fiscal Year Ended June 30, 2015**

Net change in fund balance - total governmental funds	\$	3,968,028
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 is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays less dispositions exceeded depreciation for the year.		2,000,231
Decrease in 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 the governmental funds.		1,088,785
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.		957,830
Increase in the noncurrent portion of workers' compensation liability reported in the statement of activities do not require the use of current financials resources and therefore is not reported as an expenditure in the governmental funds.		(190,286)
Transfers reported on the statement of activities that do not provide or use current financial resources are not reported as transfers for the governmental funds.		<u>(3,694,207)</u>
Change in net position of governmental activities	\$	<u>4,130,381</u>

See accompanying notes to the basic financial statements.

**Department of Health  
State of Hawaii  
GENERAL FUND - BUDGETARY COMPARISON STATEMENT  
Fiscal Year Ended June 30, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary Basis)</u>
<b>REVENUES</b>			
Current-year appropriations	\$ <u>408,912,845</u>	\$ <u>420,985,900</u>	\$ <u>410,975,330</u>
Total revenues			
<b>EXPENDITURES</b>			
General administration	27,328,434	28,419,151	27,884,490
Environmental health administration	17,245,596	18,258,499	19,280,097
Behavioral health services administration	254,432,272	259,619,518	181,485,636
Health resources administration	<u>109,906,543</u>	<u>114,688,732</u>	<u>182,325,107</u>
Total expenditures	<u>408,912,845</u>	<u>420,985,900</u>	<u>410,975,330</u>
Excess of revenues over expenditures	\$ <u>          --</u>	\$ <u>          --</u>	\$ <u>          --</u>

See accompanying notes to the basic financial statements.

**Department of Health**  
**State of Hawaii**  
**HAWAII TOBACCO SETTLEMENT SPECIAL FUND -**  
**BUDGETARY COMPARISON STATEMENT**  
**Fiscal Year Ended June 30, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary Basis)</u>
<b>REVENUES</b>			
Current-year funds	\$ <u>57,099,164</u>	\$ <u>57,222,944</u>	\$ <u>46,880,993</u>
Total revenues			
<b>EXPENDITURES</b>			
Health resources administration	<u>57,099,164</u>	<u>57,222,944</u>	<u>51,672,514</u>
Total expenditures	<u>57,099,164</u>	<u>57,222,944</u>	<u>51,672,514</u>
Excess of expenditures over revenues	\$ <u>          --</u>	\$ <u>          --</u>	\$ <u>  (4,791,521)</u>

See accompanying notes to the basic financial statements.

**Department of Health**  
**State of Hawaii**  
**DEPOSIT BEVERAGE CONTAINER DEPOSIT SPECIAL FUND -**  
**BUDGETARY COMPARISON STATEMENT**  
**Fiscal Year Ended June 30, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary Basis)</u>
<b>REVENUES</b>			
Current-year funds	\$ <u>81,851,018</u>	\$ <u>81,851,018</u>	\$ <u>62,696,920</u>
Total revenues			
<b>EXPENDITURES</b>			
Environmental health administration	<u>81,851,018</u>	<u>81,851,018</u>	<u>62,937,322</u>
Total expenditures	<u>81,851,018</u>	<u>81,851,018</u>	<u>62,937,322</u>
Excess of expenditures over revenues	\$ <u>          --</u>	\$ <u>          --</u>	\$ <u>      (240,402)</u>

See accompanying notes to the basic financial statements.

**Department of Health**  
**State of Hawaii**  
**MENTAL HEALTH SUBSTANCE ABUSE SPECIAL FUND -**  
**BUDGETARY COMPARISON STATEMENT**  
**Fiscal Year Ended June 30, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary Basis)</u>
<b>REVENUES</b>			
Current-year funds	\$ <u>12,070,390</u>	\$ <u>12,070,390</u>	\$ <u>6,608,966</u>
Total revenues			
<b>EXPENDITURES</b>			
Environmental health administration	<u>12,070,390</u>	<u>12,070,390</u>	<u>6,016,009</u>
Total expenditures	<u>12,070,390</u>	<u>12,070,390</u>	<u>6,016,009</u>
Excess of expenditures over revenues	\$ <u>          --</u>	\$ <u>          --</u>	\$ <u>          592,957</u>

See accompanying notes to the basic financial statements.

**Department of Health  
State of Hawaii  
STATEMENT OF NET POSITION - PROPRIETARY FUNDS  
June 30, 2015**

	<b>Water Pollution Control Revolving Fund</b>	<b>Drinking Water Treatment Revolving Loan Fund</b>	<b>Total</b>
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>			
Current assets			
Equity in cash and cash equivalents and investments in State Treasury	\$ 143,384,692	\$ 46,981,973	\$ 190,366,665
Loan fees receivable	264,046	689,909	953,955
Accrued interest receivable	419,734	90,936	510,670
Other accrued interest	165,501	57,179	222,680
Due from SRF	--	23,837	23,837
Due from State Treasury	28,113	20,460	48,573
Due from federal government	15,744	285,866	301,610
Current portion of loans receivable	<u>27,318,065</u>	<u>7,742,427</u>	<u>35,060,492</u>
Total current assets	171,595,895	55,892,587	227,488,482
ARRA advances	7,438,075	--	7,438,075
Loans receivable, net of current portion	307,239,563	108,282,668	415,522,231
Capital assets, net of accumulated depreciation	<u>11,381</u>	<u>908,363</u>	<u>919,744</u>
Total assets	486,284,914	165,083,618	651,368,532
Deferred outflows of resources related to pensions	<u>262,038</u>	<u>274,489</u>	<u>536,527</u>
Total assets and deferred outflows of resources	\$ <u>486,546,952</u>	\$ <u>165,358,107</u>	\$ <u>651,905,059</u>

See accompanying notes to the basic financial statements.

**Department of Health  
State of Hawaii  
STATEMENT OF NET POSITION - PROPRIETARY FUNDS (Continued)  
June 30, 2015**

	<u>Water Pollution Control Revolving Fund</u>	<u>Drinking Water Treatment Revolving Loan Fund</u>	<u>Total</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>			
Current liabilities			
Accounts payable and other accrued liabilities	\$ <u>260,836</u>	\$ <u>424,824</u>	\$ <u>685,660</u>
Total current liabilities	260,836	424,824	685,660
Accrued vacation, net of current portion	205,390	159,315	364,705
Net pension liability	2,393,166	1,342,769	3,735,935
Other postemployment benefits	<u>1,407,139</u>	<u>744,861</u>	<u>2,152,000</u>
Total liabilities	4,266,531	2,671,769	6,938,300
Deferred inflows of resources related to pensions			
	54,775	657,295	712,070
Net position			
Net investment in capital assets	11,381	908,363	919,744
Restricted - expendable	<u>482,214,265</u>	<u>161,120,680</u>	<u>643,334,945</u>
Total net position	<u>482,225,646</u>	<u>162,029,043</u>	<u>644,254,689</u>
Total liabilities, deferred inflows of resources, and net position	\$ <u><u>486,546,952</u></u>	\$ <u><u>165,358,107</u></u>	\$ <u><u>651,905,059</u></u>

See accompanying notes to the basic financial statements.

**Department of Health  
State of Hawaii  
STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN FUND NET POSITION - PROPRIETARY FUNDS  
Fiscal Year Ended June 30, 2015**

	<b>Water Pollution Control Revolving Fund</b>	<b>Drinking Water Treatment Revolving Loan Fund</b>	<b>Total</b>
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>OPERATING REVENUES</b>			
Interest income from loans	\$ 2,040,291	\$ 331,396	\$ 2,371,687
Administrative loan fees	<u>1,141,613</u>	<u>2,291,738</u>	<u>3,433,351</u>
Total revenues	3,181,904	2,623,134	5,805,038
<b>EXPENSES</b>			
Administrative	2,135,203	1,938,648	4,073,851
State program management	--	682,932	682,932
Water protection	--	1,662,578	1,662,578
Principal forgiveness for ARRA	5,050,316	--	5,050,316
Principal forgiveness for SRF	<u>1,089,898</u>	<u>4,246,609</u>	<u>5,336,507</u>
Total expenses	<u>8,275,417</u>	<u>8,530,767</u>	<u>16,806,184</u>
Operating loss	(5,093,513)	(5,907,633)	(11,001,146)
<b>NONOPERATING REVENUES AND EXPENSES</b>			
State contributions	2,200,000	1,825,000	4,025,000
Federal contributions	10,381,374	19,210,662	29,592,036
Other interest income	<u>591,448</u>	<u>242,701</u>	<u>834,149</u>
Total nonoperating revenues and expenses	<u>13,172,822</u>	<u>21,278,363</u>	<u>34,451,185</u>
Change in net position	<u>8,079,309</u>	<u>15,370,730</u>	<u>23,450,039</u>
<b>NET POSITION</b>			
Beginning of year, as previously reported	476,502,323	147,646,719	624,149,042
Prior period adjustment	<u>(2,355,986)</u>	<u>(988,406)</u>	<u>(3,344,392)</u>
Beginning of year, as restated	<u>474,146,337</u>	<u>146,658,313</u>	<u>620,804,650</u>
End of year	\$ <u>482,225,646</u>	\$ <u>162,029,043</u>	\$ <u>644,254,689</u>

See accompanying notes to the basic financial statements.

**Department of Health  
State of Hawaii  
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS  
Fiscal Year Ended June 30, 2015**

	<b>Water Pollution Control Revolving Fund</b>	<b>Drinking Water Treatment Revolving Loan Fund</b>	<b>Total</b>
<b>Cash flows from operating activities</b>			
Payments to employments	\$ (1,684,347)	\$ (1,444,656)	\$ (3,129,003)
Payments to vendors	<u>(195,915)</u>	<u>(2,281,070)</u>	<u>(2,476,985)</u>
Net cash used in operating activities	(1,880,262)	(3,725,726)	(5,605,988)
<b>Cash flows from noncapital financing activities</b>			
State contributions	2,200,000	1,825,000	4,025,000
Federal contributions	<u>10,194,187</u>	<u>18,979,757</u>	<u>29,173,944</u>
Net cash provided by noncapital financing activities	12,394,187	20,804,757	33,198,944
<b>Cash flows from capital and related financing activities</b>			
Purchase of equipment	<u>--</u>	<u>(442,900)</u>	<u>(442,900)</u>
Net cash used in capital and related financing	--	(442,900)	(442,900)
<b>Cash flows from investing activities</b>			
Interest income from loans	2,117,855	318,060	2,435,915
Administrative loan fees	1,153,534	2,240,791	3,394,325
Principal repayments on loans	27,041,763	6,475,400	33,517,163
Disbursement of loan proceeds	(26,668,520)	(48,375,741)	(75,044,261)
Other interest income	<u>533,439</u>	<u>244,113</u>	<u>777,552</u>
Net cash provided by (used in) investing activities	<u>4,178,071</u>	<u>(39,097,377)</u>	<u>(34,919,306)</u>
Net increase (decrease) in cash	14,691,996	(22,461,246)	(7,769,250)
<b>Equity in cash and cash equivalents and investments in State Treasury</b>			
Beginning of year	<u>128,692,696</u>	<u>69,443,219</u>	<u>198,135,915</u>
End of year	\$ <u>143,384,692</u>	\$ <u>46,981,973</u>	\$ <u>190,366,665</u>

See accompanying notes to the basic financial statements.

**Department of Health  
State of Hawaii  
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS (Continued)  
Fiscal Year Ended June 30, 2015**

	<u>Water Pollution Control Revolving Fund</u>	<u>Drinking Water Treatment Revolving Loan Fund</u>	<u>Total</u>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities</b>			
Operating loss	\$ (5,093,513)	\$ (5,907,633)	\$ (11,001,146)
Adjustments to reconcile operating loss to net cash used in operating activities			
Depreciation expense	11,480	194,286	205,766
Principal forgiveness for ARRA	5,050,316	--	5,050,316
Principal forgiveness for SRF	1,089,898	4,246,609	5,336,507
Interest income from loans	(2,040,291)	(331,396)	(2,371,687)
Administrative loan fees	(1,141,613)	(2,291,738)	(3,433,351)
Pension expense	85,203	507,393	592,596
In-kind contribution from the EPA	219,225	--	219,225
Change in assets, deferred outflows, liabilities, and deferred inflows			
Due from SRF	--	(23,837)	(23,837)
Due from State Treasury	21,832	(20,460)	1,372
Net deferred outflows/inflows of resources related to pensions	(255,286)	(193,458)	(448,744)
Accounts payable and other accrued liabilities	30,952	(50,363)	(19,411)
Other postemployment benefits	141,535	144,871	286,406
Net cash used in operating activities	\$ <u>(1,880,262)</u>	\$ <u>(3,725,726)</u>	\$ <u>(5,605,988)</u>
<b>Disclosure of noncash investing, capital, and financing activities</b>			
In-kind contribution from the Environmental Protection Agency	\$ 219,225	\$ --	\$ 219,225

See accompanying notes to the basic financial statements.

**Department of Health  
State of Hawaii  
STATEMENT OF FIDUCIARY NET POSITION - AGENCY FUNDS  
June 30, 2015**

**ASSETS**

Cash and cash equivalents	\$ <u>432,614</u>
Total assets	<u>432,614</u>

**LIABILITIES**

Due to others	<u>432,614</u>
Total liabilities	<u>432,614</u>

**NET POSITION**

\$     --

See accompanying notes to the basic financial statements.

**Department of Health  
State of Hawaii  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2015**

**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

- (1) **Reporting Entity** - The State of Hawaii, Department of Health (the "Department"), administers and oversees statewide personal health services, health promotion and disease prevention, mental health programs, monitoring of the environment, and the enforcement of environmental health laws. Federal grants received to support the State's health services and programs are administered by the Department.

The accompanying financial statements of the Department have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") prescribed by the Governmental Accounting Standards Board ("GASB").

The Department is part of the executive branch of the State of Hawaii ("State"). The financial statements of the Department are intended to present the financial position and the changes in financial position and cash flows, where applicable, of only that portion of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State as of June 30, 2015, and the changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America. The State Comptroller maintains the central accounts for all State funds and publishes the State's Comprehensive Annual Financial Report ("CAFR"), which includes the Department's financial activities.

Act 262, Session Laws of Hawaii of 1996, established the Hawaii Health Systems Corporation ("HHSC") as a public body corporate and politic and an instrumentality and agency of the State. HHSC consists of the state hospitals and was created to provide quality health care for all of the people in the State. HHSC commenced operations on July 1, 1996 and is administratively attached to the Department. However, HHSC is a component unit of the State and not the Department. HHSC's stand-alone financial statements are included in the State's CAFR but are not included in the Department's basic financial statements.

- (2) **Government-wide Financial Statements** - The government-wide statements of net position and activities 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 imposed by the provider have been met.

Certain eliminations have been made as prescribed by GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, related to interfund activities, receivables, and payables. All internal balances have been eliminated except those representing balances between

**Department of Health  
State of Hawaii  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2015**

**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Continued)**

governmental and business-type activities, which are presented as internal balances and eliminated in the total department column when applicable. In the statement of activities, those transactions between governmental and business-type activities have not been eliminated. In addition, the fiduciary funds account for net position held in a trustee or agent capacity for others. These funds are not reflected in the government-wide financial statements since these resources are not available to support the Department's programs.

- (3) ***Fund Financial Statements*** - The governmental fund financial statements are reported using the current financial resources measurement 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 Department considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

The proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide financial statements described above.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The principal operating revenues of the proprietary funds are interest income and administrative loan fees on loans made to county governments. Federal grants, state matching funds and interest income from sources other than loans are reported as nonoperating revenues. Principal forgiveness for loans and ARRA advances are reported as operating expenses.

A description of the funds administered by the Department is as follows:

**Governmental Funds (Governmental Activities)**

- ***General Fund*** - The General Fund is the general operating fund of the Department. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund presented is a part of the State's General Fund and is limited to only those appropriations and obligations of the Department.

**Department of Health  
State of Hawaii  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2015**

**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Continued)**

- *Special Revenue Funds* - Special revenue funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.
- *Capital Projects Funds* - Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds) and are included in Other Funds in the fund financial statements.

The Department accounts for governmental fund balances in accordance with GASB Statement No. 54 ("GASBS 54"), *Fund Balance Reporting and Governmental Fund Type Definitions*. GASBS 54's hierarchical fund balance classification structure is based primarily on the extent to which a government is bound to follow constraints on how resources can be spent. Classifications include:

- *Nonspendable fund balance* - amounts that are not in spendable form (such as inventory) or are required to be maintained in tact;
- *Restricted* - amounts constrained to specific purposes by their providers (such as creditors, grantors or other governments) through constitutional provisions, or by enabling legislation;
- *Committed* - amount constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level of action to remove or change the constraint;
- *Assigned* - amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the government delegates the authority;
- *Unassigned* - amounts that are available for any purpose; positive amounts are reported only in the general fund.

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

**Department of Health  
State of Hawaii  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2015**

**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Continued)**

**Propriety Funds (Business-Type Activities)**

- *Enterprise Funds* - Enterprise funds are used to account for the activities for which the intent of management is to recover, primarily through user charges, the cost of providing goods or services to customers or where sound financial management dictates that periodic determination of results of operations are appropriate.

**Fiduciary Funds**

- *Agency Funds* - Agency funds are used to account for cash collected and disbursed by the Department in a custodial capacity.

- (4) ***Equity in Cash and Cash Equivalents and Investments in State Treasury*** - The State Director of Finance is responsible for the safekeeping of cash in the State Treasury in accordance with State laws. The Director of Finance may invest any monies of the State which, in the Director's judgment, are in excess of the amounts necessary for meeting the immediate requirements of the State. Cash is pooled with funds from other State agencies and departments and deposited into approved financial institutions or in the State Treasury Investment Pool System. Funds in the investment pool accrue interest based on the average weighted cash balances of each account.

The State requires that depository banks pledge as collateral, government securities held in the name of the State for deposits not covered by federal deposit insurance.

GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, requires disclosures over common deposit and investment risks related to credit risk, interest rate risk, and foreign currency risk. Investments can be categorized by type, maturity and custodian to determine the level of interest rate, credit and custodial risk assumed by the Department. However, as all of the Department's monies are held in the State cash pool, the Department does not manage its own investments and the types of investments and related interest rate, credit and custodial risks are not determinable at the department level. The risk disclosures of the State's cash pool are included in the CAFR which may be obtained from the Department of Accounting and General Services' ("DAGS") website: <http://ags.hawaii.gov/accounting/annual-financial-reports/>.

- (5) ***Due from State Treasury*** - The State Director of Finance is responsible for the safekeeping of all cash in the State Treasury in accordance with State laws. Currently, separate accounts are not maintained in the State Treasury for the Department's general operating and capital appropriations. Although these appropriations are available to the Department to expend, custody of the funds remains with the State. Unspent general and capital appropriations that continue to be available to the Department for expenditure at the end of the fiscal year are reported as Due from State Treasury in the accompanying fund and government-wide financial statements.

**Department of Health  
State of Hawaii  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2015**

**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Continued)**

- (6) ***Due from Other State Agencies*** - Receivables due from other State agencies consist of reimbursements from the Department of Human Services (“DHS”) for Medicaid payments that the Department makes to providers of health services. The Department is responsible to pay the State portion of the Medicaid claims, and DHS reimburses the Department for the Federal portion of the claims. The receivable of \$2.5 million is comprised of various Medicaid rehabilitation option claims.

Payments made to providers and received from DHS for the Federal portion of the Medicaid claims are classified as expenditures and transfers in, respectively, for financial statement purposes.

- (7) ***Tobacco Settlement*** - In November 1998, the State settled its tobacco lawsuit as part of a nationwide settlement involving 46 other states and various tobacco industry defendants. Under the settlement, those tobacco companies that have joined in the Master Settlement Agreement will pay the State approximately \$1.3 billion over a 25-year period. The Department is responsible for administering the Hawaii Tobacco Settlement Special Fund (“HTSSF”). The Department receives all tobacco settlement monies and then allocates and appropriates 75 percent of the funds to other State agencies and other entities in accordance with Hawaii Revised Statutes (“HRS”) 328L-2. The Department receives annual payments on April 15 of each year for tobacco settlements earned for the preceding calendar year. In accordance with Act 118, SLH 2015 effective July 1, 2015, the Department will allocate and appropriate 100 percent of the tobacco settlement funds to other State agencies.

The Department recognized approximately \$46.9 million in tobacco settlement revenues during the year ended June 30, 2015. In accordance with GASB Technical Bulletin No. 2004-1, *Tobacco Settlement Recognition and Financial Reporting Entity Issues*, the Department has recorded a tobacco settlement receivable for \$25.3 million in the statement of net position representing tobacco settlements earned for the period January 1, 2015 through June 30, 2015.

- (8) ***ARRA Advances*** - The proprietary funds received American Recovery and Reinvestment Act (ARRA) stimulus money that was used to provide construction grants with no interest or loan fees and 100 percent principal forgiveness upon completion of approved projects. The proprietary funds are allowed to use a portion of the ARRA funds for specified purposes as set forth in the grant. ARRA funds provided to counties have been classified as “ARRA Advances” on the statement of net position upon disbursement. The ARRA advances will be completely forgiven and expensed once all the conditions and compliance requirements have been satisfied by the counties. If conditions and compliance requirements are not met, the grants will convert to loans, requiring repayment of principal, interest and loan fees.

**Department of Health**  
**State of Hawaii**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(Continued)**

- (9) **Loan Receivable** - Loans made to counties are funded by federal capitalization grants, State matching funds, repayments and investment interest income. Loan funds are disbursed to local agencies as they expend for the purposes of the loan and request reimbursement from the proprietary funds. Interest is calculated from the date that funds are advanced. After the final disbursement has been made, the payment schedule identified in the loan agreement is adjusted for the actual amounts disbursed and interest accrued during the project period. Beginning with federal fiscal year 2010, the capitalization grants allow for portions of loans to be forgiven upon satisfaction of certain requirements.
- (10) **Administrative Loan Fees** - The Department has implemented an administrative loan fee program to pay for the proprietary fund's administration, including employee salaries and benefits. The proprietary funds apply an administrative fee to all loans as provided for in Chapter 11-65 of the Hawaii Administrative Rules.
- (11) **Capital Assets** - Capital assets, which include buildings, furniture, and equipment, are reported in the applicable governmental or business-type activities in the government-wide financial statements and in the proprietary funds' financial statements. Capital assets are defined by the Department as those assets with estimated useful lives greater than one year and with an acquisition cost greater than:

Land	All capitalized
Land improvements	\$100,000
Building and building improvements	\$100,000
Furniture and equipment	\$5,000

Such assets are recorded at historical cost if purchased or constructed. Donated assets are recorded at estimated fair value at the time received. Depreciation expense is recorded in the government-wide and proprietary funds' financial statements using the straight-line method over the estimated useful lives of the assets. Generally, the useful lives (in years) are as follows:

	<u>Governmental- Type Activities</u>	<u>Business- Type Activities</u>
Land improvements	15	Not applicable
Building and building improvements	30	Not applicable
Furniture and equipment	5 - 7	5 - 7

**Department of Health  
State of Hawaii  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2015**

**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Continued)**

- (12) **Unearned revenue** - Unearned revenues at the government-wide level and fund level arise when the Department receives resources before it has a legal claim to them. In subsequent periods, when the revenue recognition criteria is met, or when the Department has a legal claim to the resources, the liability for unearned revenue is removed from the statement of net position and balance sheet, and revenue is recognized. Unearned revenues at June 30, 2015 consisted primarily of Federal grant funds for which all requirements had not yet been met.
- (13) **Due to Other State Agencies** - Payables to other State agencies consist of funds allocated to other State agencies in accordance with the HTSSF. The amount allocated to other funds in accordance with the HTSSF is \$29.0 million.
- (14) **Beverage Container Deposits and Container Fees** - Deposits of \$0.05 are made by distributors to the deposit beverage container deposit special fund ("DBCDSF") for each qualifying container. The DBCDSF maintains all deposits until the redemption centers claim reimbursement for the deposits paid to consumers. The DBCDSF maintains the deposits that are expected to be redeemed. In addition, deposits of \$0.015 are made by the distributors to the DBCDSF for each qualifying container as a handling fee. Effective September 1, 2015, the handling fee has been reduced to \$0.01 for each qualifying container.

Amounts paid to consumers are based on containers redeemed or a predetermined weight per type of container redeemed (i.e., aluminum, mixed plastics, etc.). These weights are determined based on the mix of containers redeemed and are reviewed when necessary. Management adjusts the deposit liability balance and unredeemed deposit revenue recognized based on the amount of deposits refunded in the first three months of the subsequent fiscal year related to deposits collected prior to year end. Deposits not refunded within the first three months of the subsequent fiscal year are recognized as revenue for the previous year.

According to HRS 342G-104, any funds that accumulate in the DBCDSF shall be retained by the fund unless determined to be in excess by the Legislature.

- (15) **Deferred Outflows/Inflows of Resources** - Deferred outflows of resources represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense or expenditure) until that time. The Department reports the deferred outflows of resources related to pensions as a deferred outflow of resources on the statement of net position.

Deferred inflows of resources represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. The Department reports deferred inflows of resources related to pensions as a deferred inflow of resources on the statement of net position.

**Department of Health**  
**State of Hawaii**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(Continued)**

- (16) **Accrued Vacation** - Vacation pay is accrued as earned by employees. Vacation pay can accumulate at the rate of one and three-quarters working days for each month of service up to 720 hours at calendar year-end and is convertible to pay upon termination of employment. As accrued vacation does not require the use of current financial resources, it is not reported in the governmental funds balance sheet.
- (17) **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 State 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 State's Employees' Retirement System (ERS). At June 30, 2015, accumulated sick leave was approximately \$70.6 million.
- (18) **Intrafund and Interfund Transactions** - Significant transfers of financial resources between activities included within the same fund are offset within that fund. Transfers of revenues from funds authorized to receive them to funds authorized to expend them are recorded as operating transfers in the basic financial statements.
- (19) **Use of Estimates** - In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
- (20) **Encumbrances** - Encumbrance accounting, under which purchase orders and contractual commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed in the governmental funds. Although appropriations generally lapse at year end, open encumbrances are reported as reservations of fund balances because the commitments will be honored when the goods or services are received. Encumbrances do not constitute expenditures or liabilities. Encumbrances at June 30, 2015 for the Department's governmental funds were approximately:

General	\$ 69,208,000
Hawaii tobacco settlement special fund	6,636,000
Deposit beverage container deposit special fund	10,029,000
Mental health substance abuse	3,674,000
Other funds	<u>12,513,000</u>
Total	\$ <u>102,060,000</u>

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**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Continued)**

- (21) **Use of Restricted and Unrestricted Net Position** - When an expense is incurred for which both restricted and unrestricted net position is available, the Department's policy is to apply restricted net position first.
- (22) **Nonmonetary Transactions** - The Department receives noncash awards for one of its federally funded programs. The Department expended approximately \$13,710,000 in vaccines in fiscal year 2015.
- (23) **Administrative Costs** - DAGS assesses the Department's special funds centralized and administrative service fees, which are recorded as direct expenditures in the Department's funds. The Deposit Beverage Container Deposit Special Fund is exempted from paying the central service fee assessed by DAGS under ACT 228, SLH 2013.
- (24) **Pensions** - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the ERS and additions to/deductions from the ERS's fiduciary net position have been determined on the same basis as they are reported by the ERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at their fair value.
- (25) **New Accounting Pronouncements** - During the fiscal year, 2015, the Department implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27*, (GASBS 68) and GASB 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, and Amendment of GASB Statement No. 68* (GASBS 71). GASBS 68 establishes standards of accounting and financial reporting for defined benefit pensions and defined contribution pensions provided to the employees of state and local government employers through pension plans that are administered through trusts or equivalent arrangements in which:
- Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable.
  - Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
  - Pension plan assets are legally protected from the creditors of employer, nonemployee contributing entities, and the pension plan administrator. If the plan is a defined benefit plan, plan assets also are legally protected from creditors of the plan members.

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GASBS 68 replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. The requirements of Statements No. 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement.

GASBS 71 is required to be implemented simultaneously with GASBS 68 and amends the requirement related to certain pension contributions made to defined benefit pension plans prior to implementation of GASBS 68 by employers and nonemployer contributing entities.

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pension and Related Assets that are not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions for GASB Statements 67 and 68* (GASBS 73). This Statement establishes requirements for defined benefit pensions that are not within the scope of GASBS 68, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of GASBS 68. It also amends certain provisions of GASBS 68 for pension plans and pensions that are within their respective scopes. The requirements of this Statement that addresses accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of GASBS 68 are effective for financial statements for fiscal years beginning after June 15, 2016, and the requirements of this Statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015.

The requirements of this Statement for pension plans that are within the scope of GASBS 67 or for pensions that are within the scope of GASBS 68 are effective for fiscal years beginning after June 15, 2015.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* (GASBS 75). This Statement replaces the requirements of GASB Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for other postemployment benefits (OPEB). GASBS 75 addresses accounting and financial reporting for OPEB that is provided to the employees of state and local government employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, GASBS 75 identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary

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**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
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information requirements about defined benefit OPEB also are addressed. In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This Statement also addresses certain circumstances in which a nonemployer entity provides financial support for OPEB of employees of another entity. The requirements of this Statement are effective for years beginning after June 15, 2017. Early application is encouraged.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (GASBS 76). This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of GASBS 76 is to identify the hierarchy of GAAP. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The requirements of this Statement are effective for years beginning after June 15, 2015, and should be applied retroactively.

In June 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures* (GASBS 77). This Statement requires disclosure of tax abatement information about a reporting government's own tax abatement agreements and those that are entered into by other governments and that reduce the reporting government's tax revenues. The requirements of this Statement are effective for years beginning after December 15, 2015. Early application is encouraged.

Management has not yet determined the effect GASBS 73, 75, 76, and 77 will have on the Department's financial statements.

**NOTE B - BUDGETING AND BUDGETARY CONTROL**

The Department follows these procedures in establishing the budgetary data reflected in the basic financial statements:

- *The Budget* - Not less than 20 days before the State Legislature convenes in every odd-numbered year, the Governor submits to the State Legislature, and to each member thereof, a budget which contains the program and budget recommendation of the Governor for the succeeding biennium. The budget in general contains: the State program structure; statements of statewide objectives; financial requirements for the next biennium to carry out the recommended programs; a summary of State receipts and revenues in the last completed fiscal year; a revised estimate for the fiscal year in progress; and an estimate for the succeeding biennium.

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**NOTE B - BUDGETING AND BUDGETARY CONTROL (Continued)**

- *Legislative Review* - The State Legislature considers the Governor's proposed program and financial plan and budget, evaluates alternatives to the Governor's recommendations, adopts programs, and determines the State budget. It may, from time to time, request the Department of Budget and Finance and any agency to conduct such analysis of programs and finances as will assist in determining the State's program and financial plan and budget.
- *Program Execution* - Except as limited by policy decisions of the Governor, appropriations by the State Legislature, and other provisions of law, the agencies responsible for the programs administer the programs and are responsible for their proper management. The appropriations by the State Legislature for a biennium are allocated between the two fiscal years of the biennium in the manner provided in the budget or appropriations act and as further prescribed by the Director of Finance. No appropriation transfers or changes between programs or agencies can be made without legislative authorization. Authorized transfers or changes, when made, should be reported to the State Legislature.

Budgetary control is maintained at the appropriation line item level established in the appropriation acts.

Budgets are adopted for the Department's funds and are prepared on the cash basis of accounting, except for the encumbrance of purchase orders and contract obligations (basis difference), which is a basis of accounting other than GAAP.

Since budgetary basis differs from GAAP, budget and actual amounts in the budgetary comparison statements are presented on the budgetary basis. A reconciliation of revenues over expenditures (expenditures over revenues) on a budgetary basis at June 30, 2015, to excess of revenues over expenditures presented in conformity with GAAP follows:

	General	Hawaii Tobacco Settlement	Deposit Beverage Container Deposit	Mental Health Substance Abuse
Excess of revenues over expenditures (expenditures over revenues) - actual on a budgetary basis	\$ --	\$ (4,791,521)	\$ (240,402)	\$ 592,957
Reserve for encumbrances at year end	69,208,160	6,636,243	10,029,369	3,673,697
Expenditures for liquidation of prior year's encumbrances	(69,504,993)	(2,737,639)	(6,418,493)	(92,514)
Accruals and other adjustments	<u>(2,863,247)</u>	<u>26,815,585</u>	<u>3,062,895</u>	<u>(3,326,706)</u>
Excess of revenues over expenditures (expenditures over revenues) - GAAP basis	\$ <u>(3,160,080)</u>	\$ <u>25,922,668</u>	\$ <u>6,433,369</u>	\$ <u>847,434</u>

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**NOTE C - LOANS RECEIVABLE**

At June 30, 2015, the proprietary funds loans receivable consisted of loans to county governmental units for the water pollution control and drinking water treatment programs. The loans require annual, semi-annual or quarterly payments, including interest at 0.00 percent to 3.02 percent, commencing not later than one year after project completion, notice to proceed, or loan agreement date. Final payment is due not later than twenty years after project completion. In fiscal year 2015, \$10,386,823 in loans were forgiven. All loans and advances forgiven were in accordance with required conditions. Accrued interest receivable on the loans amounted to approximately \$511,000 at June 30, 2015.

The following is a schedule of principal payments due on loans for projects completed or in progress as of June 30, 2015:

<u>Year ending June 30,</u>	
2016	\$ 35,060,492
2017	34,526,982
2018	34,306,471
2019	33,327,853
2020	31,873,026
Thereafter	<u>281,487,899</u>
	<u>\$ 450,582,723</u>

**NOTE D - CAPITAL ASSETS**

Capital asset activity for governmental activities for the year ended June 30, 2015 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Ending Balance</u>
<b>Governmental activities</b>				
Capital assets, not being depreciated				
Land	\$ 1,018,080	\$ --	\$ --	\$ 1,018,080
Total capital assets not being depreciated	1,018,080	--	--	1,018,080
Capital assets, being depreciated				
Land improvements	3,304,766	--	--	3,304,766
Building and building improvements	158,937,765	6,258,882	--	165,196,647
Furniture and equipment	<u>21,857,638</u>	<u>2,239,111</u>	<u>(400,114)</u>	<u>23,696,635</u>
Total capital assets being depreciated	184,100,169	8,497,993	(400,114)	192,198,048
Less: Accumulated depreciation				
Land improvements	2,116,180	96,122	--	2,212,302
Building and building improvements	102,460,451	4,998,560	--	107,459,011
Furniture and equipment	<u>19,054,062</u>	<u>1,402,546</u>	<u>(399,580)</u>	<u>20,057,028</u>
Total accumulated depreciation	<u>123,630,693</u>	<u>6,497,228</u>	<u>(399,580)</u>	<u>129,728,341</u>
Governmental activities capital assets, net	<u>\$ 61,487,556</u>	<u>\$ 2,000,765</u>	<u>\$ (534)</u>	<u>\$ 63,487,787</u>

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**NOTE D - CAPITAL ASSETS (Continued)**

Capital asset activity for business-type activities for the year ended June 30, 2015 was as follows:

	Beginning Balance as Previously Reported	Prior Period Adjustment	Beginning Balance as Restated	Additions	Dispositions	Ending Balance
<b>Business-type activities</b>						
Capital assets being depreciated						
Furniture and equipment	\$ 1,440,759	\$ 623,713	\$ 2,064,472	\$ 442,900	\$ (14,121)	\$ 2,493,251
Total capital assets being depreciated						
Less: Accumulated depreciation for equipment	<u>1,181,383</u>	<u>200,479</u>	<u>1,381,862</u>	<u>205,766</u>	<u>(14,121)</u>	<u>1,573,507</u>
Total accumulated depreciation	<u>1,181,383</u>	<u>200,479</u>	<u>1,381,862</u>	<u>205,766</u>	<u>(14,121)</u>	<u>1,573,507</u>
Business-type activities capital assets, net	<u>\$ 259,376</u>	<u>\$ 423,234</u>	<u>\$ 682,610</u>	<u>\$ 237,134</u>	<u>\$ --</u>	<u>\$ 919,744</u>

Current period depreciation expense was charged to functions as follows:

**Governmental activities**

General administration	\$ 1,024,337
Environmental health	781,273
Behavioral health services	2,160,679
Health resources	<u>2,530,939</u>
Total depreciation expense - governmental activities	<u>\$ 6,497,228</u>

**Business-type activities**

Environmental health	\$ <u>205,766</u>
Total depreciation expense - business-type activities	<u>\$ 205,766</u>

**NOTE E - ACCRUED VACATION**

The changes to the accrued vacation liability during 2015 were as follows:

	Governmental Activities	Business-Type Activities
Balance at July 1, 2014	\$ 27,783,734	\$ 438,972
Increase	11,624,962	228,180
Decrease	<u>(12,713,747)</u>	<u>(169,843)</u>
Balance at June 30, 2015	26,694,949	497,309
Less: Current portion	<u>9,789,851</u>	<u>132,604</u>
Noncurrent portion	<u>\$ 16,905,098</u>	<u>\$ 364,705</u>

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**NOTE F - BEVERAGE CONTAINER DEPOSITS**

The changes to the beverage container deposit liability during 2015 were as follows:

Balance at July 1, 2014	\$ 1,864,042
Increase: Deposits received from distributor	47,928,476
Decrease: Payments made to redemption centers, net of refunds	(35,693,917)
Decrease: Unredeemed deposits recognized as revenue	<u>(12,280,607)</u>
Balance at June 30, 2015	\$ <u>1,817,994</u>

**NOTE G - 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, 2015, were as follows:

	<u>Balance July 1, 2014</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2015</u>
<b>Assets</b>				
Cash and cash equivalents	\$ <u>454,719</u>	\$ <u>211,810</u>	\$ <u>233,915</u>	\$ <u>432,614</u>
<b>Liabilities</b>				
Due to others	\$ <u>454,719</u>	\$ <u>211,810</u>	\$ <u>233,915</u>	\$ <u>432,614</u>

**NOTE H - NON-IMPOSED EMPLOYEE FRINGE BENEFITS**

Non-imposed employee fringe benefits related to general and State special fund salaries are funded by the State. These costs, totaling approximately \$54.0 million for the fiscal year ended June 30, 2015, have been reported as revenues and expenditures of the Department's general and State special revenue funds.

Payroll fringe benefit costs related to Federally-funded salaries are not funded by the State and are recorded as expenditures in the Federal special revenue funds.

**NOTE I - EMPLOYEE BENEFIT PLANS**

**(1) *Employees' Retirement System***

**Plan Description** - All eligible employees of the State and counties are provided with pensions through a cost-sharing multiple-employer defined benefit pension plan administered by the ERS. Benefit terms, eligibility, and contribution requirements are established by HRS Chapter 88 and can be amended through legislation. The ERS issues a publicly available financial report that can be obtained at ERS's website: <http://ers.ehawaii.gov/>.

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**NOTE I - EMPLOYEE BENEFIT PLANS (Continued)**

**Benefits Provided** - The ERS provides retirement, disability, and death benefits that are covered by the provisions of the noncontributory, contributory, and hybrid retirement plans. The three plans provide a monthly retirement allowance equal to the benefit multiplier (generally 1.25% or 2%) multiplied by the average final compensation multiplied by years of credited service. The benefit multiplier decreased by 0.25% for new hybrid and contributory plan members hired after June 30, 2012. Average final compensation is an average of the highest salaries during any 3 years of credited service, excluding any salary paid in lieu of vacation for employees hired January 1, 1971 or later and the average of the highest salaries during any five years of credited service including any salary paid in lieu of vacation for employees hired prior to January 1, 1971.

For members hired before July 1, 2012, the original retirement allowance is increased by 2.5% each July 1 following the calendar year of retirement. This cumulative benefit is not compounded and increases each year by 2.5% of the original retirement allowance without a ceiling (2.5% of the original retirement allowance the first year, 5.0% the second year, 7.5% the third year, etc.). For members hired after June 30, 2012 the post-retirement annuity increase was decreased to 1.5% per year.

Retirement benefits for certain groups, such as police officers, firefighters, some investigators, sewer workers, judges, and elected officials, vary from general employees.

*Noncontributory Plan*

*Retirement Benefits* - General employees' retirement benefits are determined as 1.25% of average final compensation multiplied by the years of credited service. Employees with 10 years of credited service are eligible to retire at age 62. Employees with 30 years of credited service are eligible to retire at age 55.

*Disability Benefits* - Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 12.5% of average final compensation.

*Death Benefits* - For service-connected deaths, the surviving spouse/reciprocal beneficiary receives a monthly benefit of 30% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. Additional benefits are payable to surviving dependent children up to age 18. If there is no spouse/reciprocal beneficiary or dependent children, no benefit is payable.

Ten years of credited service is required for ordinary death benefits. For ordinary death benefits, the surviving spouse/reciprocal beneficiary (until remarriage/re-entry into a new reciprocal beneficiary relationship) and dependent children (up to age 18) receive a benefit equal to a percentage of member's accrued maximum allowance unreduced for

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**NOTE I - EMPLOYEE BENEFIT PLANS (Continued)**

age or, if the member was eligible for retirement at the time of death, the surviving spouse/reciprocal beneficiary receives 100% joint and survivor lifetime pension.

*Contributory Plan for Employees Hired Prior to July 1, 2012*

*Retirement Benefits* - General employees' retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with 5 years of credited service are eligible to retire at age 55.

Police and firefighters' retirement benefits are determined as 2.25% of average final compensation for each year of service up to a maximum of 80%. Police and firefighters with 5 years of credited service are eligible to retire at age 55.

*Disability Benefits* - Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 66-2/3% of their average final compensation. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 30% of average final compensation.

*Death Benefits* - For service-connected deaths, the surviving spouse/reciprocal beneficiary receives a lump sum payment of the member's contributions and accrued interest plus a monthly benefit of 50% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse/reciprocal beneficiary, surviving children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse/reciprocal beneficiary or dependent children/parents, the ordinary death benefit is payable to the designated beneficiary.

Ordinary death benefits are available to employees who were active at time of death with at least 1 year of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest plus a percentage of the salary earned in the 12 months preceding death, or 50% Joint and Survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least 10 years of service and designated one beneficiary, or 100% Joint and Survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

*Contributory Plan for Employees Hired After June 30, 2012*

*Retirement Benefits* - Judges and elected officers' retirement benefits are determined as 3.0% of average final compensation multiplied by the years of credited service up to a maximum of 75%. Judges and elected officers with 10 years of credited service are eligible to retire at age 60.

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**NOTE I - EMPLOYEE BENEFIT PLANS (Continued)**

Police and firefighters' retirement benefits are determined as 2.25% of average final compensation for each year of service up to a maximum of 80%. Police and firefighters with 10 years of credited service are eligible to retire at age 60.

*Disability and Death Benefits* - Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 50% of their average final compensation plus refund of contributions and accrued interest. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are 3.0% of average final compensation for each year of service for judges and elected officers and 1.75% of average final compensation for each year of services for police and firefighters and are payable immediately, without an actuarial reduction, at a minimum of 30% of average final compensation.

Death benefits for contributory plan members hired after June 30, 2012 are generally the same as those for contributory plan members hired June 30, 2012 and prior.

*Hybrid Plan for Employees Hired Prior to July 1, 2012*

*Retirement Benefits* - General employees' retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with 5 years of credited service are eligible to retire at age 62. General employees with 30 years of credited service are eligible to retire at age 55.

*Disability Benefits* - Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation plus refund of their contributions and accrued interest. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 25% of average final compensation.

*Death Benefits* - For service-connected deaths, the surviving spouse / reciprocal beneficiary receives a lump sum payment of the member's contributions and accrued interest plus a monthly benefit of 50% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse / reciprocal beneficiary, surviving children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse / reciprocal beneficiary or dependent children / parents, the ordinary death benefit is payable to the designated beneficiary.

Ordinary death benefits are available to employees who were active at time of death with at least 5 years of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest plus a percentage multiplied by 150%, or 50% Joint and Survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least 10 years of service and designated one beneficiary, or 100% Joint and Survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

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**NOTE I - EMPLOYEE BENEFIT PLANS (Continued)**

*Hybrid Plan for Employees Hired After June 30, 2012*

*Retirement Benefits* - General employees' retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with 10 years of credited service are eligible to retire at age 65. Employees with 30 years of credited service are eligible to retire at age 60. Sewer workers, water safety officers, and EMTs may retire with 25 years of credited service at age 55.

*Disability and Death Benefits* - Provisions for disability and death benefits generally remain the same except for ordinary death benefits. Ordinary death benefits are available to employees who were active at time of death with at least 10 years of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest plus a percentage multiplied by 50% Joint and Survivor lifetime pension if the member was not eligible for retirement at the time of death and designated one beneficiary, or 100% Joint and Survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

**Contributions** - Contributions are established by HRS Chapter 88 and may be amended through legislation. The employer rate is set by statute based on the recommendations of the ERS actuary resulting from an experience study conducted every five years. Since July 1, 2005, the employer contribution rate is a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liabilities. The contribution rates for fiscal year 2015 were 22.00% for police and firefighters and 15.50% for all other employees. Contributions to the pension plan from the Department were \$448,744 for the fiscal year ended June 30, 2015.

The employer is required to make all contributions for members in the noncontributory plan. For contributory plan employees hired prior to July 1, 2012, general employees are required to contribute 7.8% of their salary and police and firefighters are required to contribute 12.2% of their salary. For contributory plan employees hired after June 30, 2012, judges and elected officials are required to contribute 9.8% of their salary and police and firefighters are required to contribute 14.2% of their salary. Hybrid plan members hired prior July 1, 2012 are required to contribute 6.0% of their salary. Hybrid plan members hired after June 30, 2012 are required to contribute 8.0% of their salary.

**State Policy** - Measurement of assets and actuarial valuations are made for the ERS as a whole and are not separately computed for individual participating employers such as the Department. It is the State's policy on the accounting and reporting for pension benefits to allocate a portion of the net pension liability, pension expense, and related deferred inflows and outflows of resources to only proprietary funds and component units that are reported separately in the stand-alone departmental financial statements or in the State's CAFR. The State's CAFR includes the note disclosures and required supplementary information on the State's pension plan.

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**NOTE I - EMPLOYEE BENEFIT PLANS (Continued)**

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions** - At June 30, 2015, the Department reported a liability of \$3,735,935 for its proportionate share of net pension liability of the State. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The State's proportion of the net pension liability was based on a projection of the State's long-term share of contributions to the pension plan relative to projected contributions of all participants, actuarially determined. The Department's proportion of the net pension liability was based on an allocation of the State's net pension liability based on the proportionate share of qualified payroll. At June 30, 2014, the Department's proportion of the State's proportion was 0.1300%, which did not change from its proportion at June 30, 2013.

There were no changes in other assumptions and inputs that affected the measurement of the total pension liability since the prior measurement date. There were no changes between the measurement date, June 30, 2014, and the reporting date, June 30, 2015, that are expected to have a significant effect on the proportionate share of the net pension liability.

For the year ended June 30, 2015, the Department recognized pension expense of \$592,596. At June 30, 2015, the Department reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u>          </u>	<u>          </u>
Differences between expected and actual experience	\$ 76,736	\$ (1,730)
Net difference between projected and actual earnings on pension plan investments	--	(710,340)
Changes in proportion and difference between Department contributions and proportionate share of contributions	11,047	--
Department contributions subsequent to the measurement date	<u>448,744</u>	<u>          </u>
	\$ <u>536,527</u>	\$ <u>(712,070)</u>

The \$536,527 reported as deferred outflows of resources related to pensions resulting from State contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2016.

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**NOTE I - EMPLOYEE BENEFIT PLANS (Continued)**

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2016	\$ (159,530)
2017	(159,530)
2018	(159,530)
2019	(159,530)
2020	<u>13,833</u>
Total	\$ <u>(624,287)</u>

**Actuarial Assumptions** - The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Payroll growth	3.50%
Salary increases, including inflation at 3.00%	
Police and fire employees	5.00% to 19.00%
General employees	4.00% to 8.00%
Teachers	4.50% to 8.50%
Investment rate of return, including inflation at 3.00%	7.75%
Cost of living adjustments (COLAs)	2.50% / 1.50%
COLAs are not compounded; and are based on original pension amounts	

Post-retirement mortality rates are based on Client Specific Tables and the 1994 U.S. Group Annuity Mortality Statistic Tables for police and firefighters. Pre-retirement mortality rates are based on the RP-2000 tables.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the five-year period ending June 30, 2010. ERS updates its experience studies every five years.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of

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**NOTE I - EMPLOYEE BENEFIT PLANS (Continued)**

arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Arithmetic Rate of Return</u>
Domestic equity	30.0%	8.5%
Non-U.S. equity	26.0%	9.0%
Fixed income	20.0%	3.1%
Real estate	7.0% *	8.5%
Private equity	7.0% *	11.8%
Real return	5.0% *	6.1%
Covered calls	<u>5.0%</u>	7.7%
	<u>100.0%</u>	

\* The real estate, private equity, and real return targets will be the percentage actually invested up to 7%, 7%, and 5%, respectively of the total fund. Changes in the real estate, private equity, and real return targets will be offset by an equal percentage change in the large cap domestic equity target.

**Discount Rate** - The discount rate used to measure the net pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from the State will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments to determine the total pension liability. There has been no change in the discount rate since the prior measurement date.

**Sensitivity of the Department's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** - The following presents the Department's proportionate share of the net pension liability calculated using the discount rate of 7.75%, as well as what the Department's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.75%) or 1-percentage point higher (8.75%) than the current rate:

	<u>1% Decrease (6.75%)</u>	<u>Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
Department's proportionate share of the net pension liability	\$ <u>4,737,755</u>	\$ <u>3,735,935</u>	\$ <u>2,734,114</u>

**Department of Health  
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June 30, 2015**

**NOTE I - EMPLOYEE BENEFIT PLANS (Continued)**

**Pension Plan Fiduciary Net Position** - The pension plan's fiduciary net position is determined on the same basis used by the pension plan. The ERS financial statements are prepared using the accrual basis of accounting under which expenses are recorded when the liability is incurred, and revenues are recorded in the accounting period in which they are earned and become measurable. Employer and member contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investment purchases and sales are recorded as of their trade date. Administrative expenses are financed exclusively with investment income.

There were no significant changes after the report measurement date. Detailed information about the pension plan's fiduciary net position is available in the separately issued ERS financial report. ERS's complete financial statements are available at <http://www.ers.ehawaii.gov>.

The State's comprehensive annual financial report contains further disclosures related to the State's proportionate share of the net pension liability and employer pension contributions.

**(2) *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 an unforeseeable emergency.

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 has the duty of due care that would be required of an ordinary prudent investor.

**(3) *Post-Employment Healthcare and Life Insurance Benefits***

The State contributes to the Hawaii Employer-Union Health Benefits Trust Fund ("EUTF"), an agent multiple-employer defined benefit plan. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees, and their dependents. The eligibility requirements for retiree health benefits are based on date of hire.

**State Policy** - The actuarial valuation of the EUTF does not provide other postemployment benefits ("OPEB") information by department or agency. Accordingly, the State's policy on the accounting and reporting for OPEB is to allocate a portion of the State's Annual Required Contribution ("ARC"), interest, and any adjustment to the ARC, to component units and proprietary funds that are reported separately in stand-alone departmental financial statements or in the State's CAFR. The basis for the allocation is the proportionate share of the State's total covered employee headcount by each component unit or proprietary fund for retiree health benefits.

**Department of Health  
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June 30, 2015**

**NOTE I - EMPLOYEE BENEFIT PLANS (Continued)**

Annual OPEB Cost - The components of the allocated annual OPEB cost (annual required contribution, interest on net OPEB obligation, and adjustment to annual required contribution) are insignificant to the Department's two proprietary funds. The following table shows the allocated annual OPEB cost that has been allocated to the two proprietary funds of the Department for the year ended June 30, 2015:

	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Loan Fund	Total
Annual OPEB cost	\$ 265,070	\$ 237,168	\$ 502,238
Less: Contributions made	<u>(123,535)</u>	<u>(92,297)</u>	<u>(215,832)</u>
Increase in net OPEB obligation	141,535	144,871	286,406
Net OPEB obligation, beginning of year	<u>1,265,604</u>	<u>599,990</u>	<u>1,865,594</u>
Net OPEB obligation, end of year	\$ <u>1,407,139</u>	\$ <u>744,861</u>	\$ <u>2,152,000</u>

*Amount of Contributions Made*

Contributions are financed on a pay-as-you-go basis and the Department's contributions for the years ended June 30, 2015, 2014, and 2013 were approximately \$3.3 million, \$3.4 million, and \$3.2 million.

*Required Supplementary Information and Disclosures*

The State's CAFR includes the required disclosures and supplementary information on the State's OPEB plan.

**NOTE J - COMMITMENTS AND CONTINGENCIES**

**Operating Leases**

The Department leases various office facilities and equipment through fiscal year 2020 on a long-term basis as provided for in the lease agreements. The following is a schedule of minimum future rent payments on noncancelable operating leases at June 30, 2015:

<u>Year ending June 30,</u>	<u>Amount</u>
2016	\$ 385,000
2017	216,000
2018	91,000
2019	77,000
2020	<u>58,000</u>
	\$ <u>827,000</u>

**Department of Health  
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**NOTE J - COMMITMENTS AND CONTINGENCIES (Continued)**

Rental expenditures for the fiscal year ended June 30, 2015 approximated \$2,446,000.

**Insurance Coverage**

The State maintains certain insurance coverage to satisfy bond indenture agreements as well as for other purposes, but is substantially self-insured for all other perils including workers' compensation. 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. The State retains various risks and insures certain excess layers with commercial insurance companies. At June 30, 2015, the State recorded estimated losses for workers' compensation, automobile, and general liability claims as long-term liabilities 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 Department's portion of the State's workers' compensation expenditures for the year ended June 30, 2015 were approximately \$389,000 and \$40,000 for the general fund and other funds, respectively.

**Litigation**

The Department is a party to various legal proceedings, the outcome of which, in the opinion of management, will not have a material adverse effect on the Department's financial position. Losses, if any, are either covered by insurance or will be paid from legislative appropriations of the State's General Fund.

**Ceded Lands**

The Office of Hawaiian Affairs (OHA) and the State are involved in litigation regarding the State's alleged failure to properly account for and pay to OHA monies due to OHA under the provisions of the Hawaii State Constitution and Chapter 10 of the Hawaii Revised Statutes for use by the State of certain ceded lands. The ultimate outcome of this matter is still unknown. Full discussion of this matter and other legal matters between OHA and the State are disclosed in the State's CAFR.

**NOTE K - PRIOR PERIOD ADJUSTMENTS**

During the current year management discovered errors in the previous year financial statements related to capital assets that were erroneously expensed. As a result of the correction, capital assets and net position were increased by \$423,234 as of June 30, 2014 and change in net assets decreased by \$89,102 for the fiscal year ended June 30, 2014. The Department also adopted the requirements of GASBS 68, as amended, which resulted in a decrease in beginning net position at June 30, 2014.

**Department of Health  
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June 30, 2015**

**NOTE K - PRIOR PERIOD ADJUSTMENTS (Continued)**

The impact on beginning net position from these adjustments is summarized as follows:

	Amount
Net position at June 30, 2014, as previously reported	\$ 879,301,293
Capital assets erroneously expensed	423,234
Cumulative effect of applying GASBS 68, as amended	
Net pension liability at June 30, 2013	(4,118,509)
Deferred outflows of resources - employer and employee contributions made subsequent to the measurement date of the beginning net pension liability but prior to June 30, 2014	350,883
	\$ 875,956,901

Department management concluded that it was not practical to determine the beginning amounts of all pension-related deferred inflows of resources and deferred outflows of resources. Accordingly, as permitted under the provisions of GASBS 68, as amended, the Department has only reported the beginning deferred outflow of resources resulting from employer and employee pension contributions made subsequent to the measurement date of the beginning net pension liability but prior to June 30, 2014.

## **SUPPLEMENTARY INFORMATION**

**Department of Health  
State of Hawaii  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Fiscal Year Ended June 30, 2015**

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Project Number	Federal CFDA Number	Federal Expenditures	Amount Provided to Subrecipients
<b>U.S. Department of Health and Human Services</b>				
Direct Programs				
TB Epidemiological Studies Consortium	626	200-2011-41277	\$ 354,173	\$ --
VSCP Special Projects	285	200-2012-50811	128,862	--
Special Programs for the Aging - Title VII Chapter 3	468	93.041	37,318	--
Special Programs for the Aging - Title VII Chapter 2	468	93.042	79,727	--
Special Programs for the Aging - Title III Part D	401	93.043	167,419	167,419
Aging Cluster				
Special Programs for the Aging - Title III Part B - Grants for Supportive Services and Senior Centers	401	93.044	2,838,185	2,791,639
Special Programs for the Aging - Title III Part C - Nutrition Services	401	93.045	2,764,393	2,216,911
Nutrition Services Incentive Program	406	93.053	<u>355,015</u>	<u>355,015</u>
Subtotal Aging Cluster			<u>5,957,593</u> *	<u>5,363,565</u>
Special Programs for the Aging - Title IV and Title II - Discretionary Projects				
National Family Caregiver Support, Title III, Part E	401	93.052	926,057	926,057
Public Health Emergency Preparedness	various	93.069	6,337,118	--
Environmental Public Health and Emergency Response	444	93.070	397,618	37,075
Lifespan Respite Care Program	627	93.072	55,944	--
Affordable Care Act Personal Responsibility Education Program	613	93.092	177,778	79,809
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances	589	93.104	860,666	--
Maternal and Child Health Federal Consolidated Programs	257, 307, 466	93.110	779,017	--
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	247	93.116	679,415	--
Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	298	93.130	158,288	--
Injury Prevention and Control Research and State and Community Based Programs	278, 343, 749	93.136	328,562	38,463
Projects for Assistance in Transition from Homelessness	25208, 26208	93.150	390,332	390,332
Hansen's Disease National Ambulatory Care Program	264	93.215	901,418	--
Family Planning - Services	239	93.217	1,826,656	1,333,008
Affordable Care Act Abstinence Education Program	273	93.235	89,721	38,500
State Rural Hospital Flexibility Program	415	93.241	432,155	--
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	various	93.243	1,554,393	450,235
Universal Newborn Hearing Screening	416	93.251	132,711	--
Immunization Cooperative Agreements	457	93.268	16,483,756 *	--

\* Denotes Major Federal Program

The accompanying notes are an integral part of this schedule.

**Department of Health  
State of Hawaii  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)  
Fiscal Year Ended June 30, 2015**

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Project Number	Federal CFDA Number	Federal Expenditures	Amount Provided to Subrecipients
<b>U.S. Department of Health and Human Services (Continued)</b>				
Adult Viral Hepatitis Prevention and Control	397	93.270	\$ 88,458	\$ --
Substance Abuse and Mental Health Services - Access to Recovery	396	93.275	742,503	525,891
Centers for Disease Control and Prevention - Investigations and Technical Assistance	various	93.283	1,606,710	629,422
Small Rural Hospital Improvement Grant Program	454	93.301	85,287	--
Epidemiology and Laboratory Capacity for Infectious Diseases	700	93.323	302,399	--
State Health Insurance Assistance Program	403	93.324	157,045	--
Food Safety and Security Monitoring Project	580	93.448	229,645	--
Affordable Care Act - Maternal, Infant, and Early Childhood Home Visiting Program	602, 629	93.505	2,794,279	1,950,205
ACA Nationwide Program for National and State Background Checks for Direct Patient Access Employees of Long Term Care Facilities and Providers	644	93.506	60,409	--
PPHF National Public Health Improvement Initiative	615	93.507	234,147	--
ACA Building Epidemiology, Laboratory, and Health Information Systems Capacity in the Epidemiology and Laboratory Capacity for Infectious Disease and Emerging Infections Program Cooperative Agreements	607	93.521	761,113	--
PPHF Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance financed in part by Prevention and Public Health Funds	624	93.539	89,803	--
Affordable Care Act authorizes Coordinated Chronic Disease Prevention and Health Promotion Program	631	93.544	23,510	--
Community-Based Child Abuse Prevention Grants	270	93.590	148,681	--
Developmental Disabilities Basic Support and Advocacy Grants	240	93.630	501,693	--
State and Local Public Health Actions to Prevent Obesity, Diabetes, Heart Disease and Stroke	702	93.757	40,180	--
State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare Medical Assistance Program	221, 380, 387	93.777	1,305,761	--
State Survey and Certification of Health Care Providers and Suppliers (Title XIX) Medicaid	662	93.778	237,371	--
State Survey and Certification of Health Care Providers and Suppliers (Title XIX) Medicaid	221	93.796	684,964	--
Domestic Ebola Supplement to the Epidemiology and Laboratory Capacity for Infectious Diseases	751	93.815	1,788	--
National Bioterrorism Hospital Preparedness Program	435	93.889	1,201,255	1,011,958
Grants to States for Operation of Offices of Rural Health	299	93.913	215,507	--
HIV Care Formula Grants	293	93.917	2,906,966	2,358,124

\* Denotes Major Federal Program

The accompanying notes are an integral part of this schedule.

**Department of Health  
State of Hawaii  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)  
Fiscal Year Ended June 30, 2015**

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Project Number	Federal CFDA Number	Federal Expenditures	Amount Provided to Subrecipients
<b>U.S. Department of Health and Human Services (Continued)</b>				
Cooperative Agreements for State-Based Comprehensive Breast and Cervical Early Detection Programs	448	93.919	\$ 969,242	\$ 797,788
Healthy Start Initiative	286	93.926	89,507	--
HIV Prevention Activities - Health Department Based	266	93.940	1,373,924	380,462
HIV / AIDS Surveillance	272	93.944	193,816	--
Assistance Programs for Chronic Disease Prevention and Control	various	93.945	427,856	27,862
Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	319	93.946	141,236	--
Block Grants for Community Mental Health Services	32202, 33202	93.958	1,979,554	1,049,636
Block Grants for Prevention and Treatment of Substance Abuse	32204, 33204	93.959	7,732,997 *	7,368,550
Preventive Health Services - Sexually Transmitted Diseases Control Grants	268	93.977	354,925	--
Preventive Health and Health Services Block Grant	32203, 33203	93.991	475,213	--
Maternal and Child Health Services Block Grant to the States	33201, 34201	93.994	1,860,621	22,701
Hawaii State Mental Health Data Infrastructure Grants for Quality Improvement	318	93.UNKNOWN	35,690	--
Hawaii Tobacco State Enforcement Contract	633	93.FAR 52.217-9	224,926	151,182
Subtotal Direct Programs			<u>69,856,649</u>	<u>25,187,113</u>
Pass-through from the State Department of Human Services				
Child Abuse and Neglect Discretionary Activities	0FHS02	93.669	6,359	--
Subtotal Pass-through Program			<u>6,359</u>	--
Total Department of Health and Human Services			<u>69,863,008</u>	<u>25,187,113</u>
<b>U.S. Department of Agriculture</b>				
Direct Programs				
Food Safety Cooperative Agreements	203	10.479	123,622	--
Special Supplemental Nutrition Program for Women, Infants and Children	275, 295	10.557	29,940,112 *	2,609,501
Subtotal Direct Programs			<u>30,063,734</u>	<u>2,609,501</u>
Pass-through from the State Department of Human Services				
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	OTSP01	10.561	288,180	--
Subtotal Pass-through Program			<u>288,180</u>	--
Total Department of Agriculture			<u>30,351,914</u>	<u>2,609,501</u>

\* Denotes Major Federal Program

The accompanying notes are an integral part of this schedule.

**Department of Health  
State of Hawaii  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)  
Fiscal Year Ended June 30, 2015**

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Project Number	Federal CFDA Number	Federal Expenditures	Amount Provided to Subrecipients
<b>Environmental Protection Agency</b>				
Direct Programs				
Air Pollution Control Program Support	233	66.001	\$ 716,001	\$ --
Surveys, Studies, Research, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	294	66.034	137,400	--
Water Pollution Control State, Interstate, and Tribal Program Support	231, 237, 601	66.419	2,138,746	210,941
State Public Water System Supervision	232	66.432	380,361	--
Water Quality Management Planning	16284	66.454	184,200	--
Capitalization Grants for Clean Water State Revolving Funds	various	66.458	10,195,505 *	9,591,360
Nonpoint Source Implementation Grants	9290	66.460	1,242,612	756,676
Capitalization Grants for Drinking Water State Revolving Funds	various	66.468	19,138,069 *	17,793,598
Beach Monitoring and Notification Program Implementation Grants	8291	66.472	322,507	--
Environmental Information Exchange Network Grant Program and Related Assistance	395, 570	66.608	254,387	--
Toxic Substances Compliance Monitoring Cooperative Agreements	243	66.701	151,287	--
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	330	66.707	208,416	--
Hazardous Waste Management State Program Support	230	66.801	549,536	--
Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	394	66.802	269,489	--
Underground Storage Tanks Prevention, Detection and Compliance Program	339	66.804	354,980	--
Leaking Underground Storage Tank Trust Fund Corrective Action Program	258	66.805	489,112	--
State and Tribal Response Program Grants	360	66.817	<u>868,635</u>	<u>--</u>
Total Environmental Protection Agency			<u>37,601,243</u>	<u>28,352,575</u>
<b>U.S. Department of Education</b>				
Direct Program				
Special Education - Grants for Infants and Families	213	84.181A	<u>2,519,064</u>	<u>990,199</u>
Total Department of Education			<u>2,519,064</u>	<u>990,199</u>
<b>U.S. Department of Commerce</b>				
Direct Program				
Habitat Conservation	643	11.463	<u>20,674</u>	<u>20,647</u>
Total Department of Commerce			<u>20,674</u>	<u>20,647</u>

\* Denotes Major Federal Program

The accompanying notes are an integral part of this schedule.

**Department of Health  
State of Hawaii  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)  
Fiscal Year Ended June 30, 2015**

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Project Number	Federal CFDA Number	Federal Expenditures	Amount Provided to Subrecipients
<b>U.S. Department of Defense</b>				
Direct Program				
State Memorandum of Agreement Program for the Reimbursement of Technical Services	245	12.113	\$ <u>365,049</u>	\$ <u>--</u>
Total Department of Defense			<u>365,049</u>	<u>--</u>
<b>U.S. Department of Justice</b>				
Direct Program				
Enforcing Underage Drinking Laws Program	458	16.727	<u>103,483</u>	<u>68,042</u>
Total Department of Justice			<u>103,483</u>	<u>68,042</u>
<b>U.S. Department of Transportation</b>				
Direct Program				
Interagency Hazardous Materials Public Sector Training and Planning Grants	641	20.703	<u>39,187</u>	<u>--</u>
Subtotal Direct Program			<u>39,187</u>	<u>--</u>
Pass-through from the State Department of Transportation				
State and Community Highway Safety	581	20.600	<u>207,669</u>	<u>--</u>
Subtotal Pass-through Program			<u>207,669</u>	<u>--</u>
Total Department of Transportation			<u>246,856</u>	<u>--</u>
Total Expenditures of Federal Awards			\$ <u>141,071,291</u>	\$ <u>57,228,077</u>

\* Denotes Major Federal Program

The accompanying notes are an integral part of this schedule.

**Department of Health  
State of Hawaii  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Fiscal Year Ended June 30, 2015**

**NOTE A - BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the State of Hawaii, Department of Health (the "Department") under programs of the federal government for the fiscal year ended June 30, 2015. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the Department, it is not intended to and does not present the financial position, change in net position, or cash flows of the Department.

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or area limited as to reimbursement.

**NOTE C - LOANS OUTSTANDING**

The Department had the following loan balances outstanding at June 30, 2015. Loans made during the year are included in the federal expenditures presented in the schedule of expenditures of federal awards.

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amount Outstanding</u>
Capitalization Grants for Clean Water State Revolving Funds	66.458	\$ 25,358,749
Capitalization Grants for Drinking Water State Revolving Funds	66.468	\$ 33,194,416

**NOTE D - NONCASH AWARDS**

The Department also receives noncash awards for the Immunization Cooperative Agreements Program. The Department expended approximately \$13,710,000 in vaccines for the Immunization Cooperative Agreements Program for the fiscal year ended June 30, 2015.

**PART II**

**REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS**

**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**

To 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, the business-type activities, each major fund, and the aggregate remaining fund information of the State of Hawaii, Department of Health (Department), as of and for the fiscal year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated March 7, 2016.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Department'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 Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as Finding Nos. 2015-001 and 2015-002 that we consider to be significant deficiencies.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Department's financial statements are free from 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Department's Response to Findings**

The Department's response to the findings identified in our audit is described in the accompanying corrective action plan. The Department's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **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.

**N&K CPAs, Inc.**

Honolulu, Hawaii  
March 7, 2016

**PART III**

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

**REPORT ON COMPLIANCE FOR EACH  
MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

**INDEPENDENT AUDITOR'S REPORT**

To the Auditor  
State of Hawaii

**Report on Compliance for Each Major Federal Program**

We have audited the State of Hawaii, Department of Health's (Department) 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 Department's major federal programs for the fiscal year ended June 30, 2015. The Department's major federal programs are identified in the summary of 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 Department'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 Department'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 Department's compliance.

**Basis for Qualified Opinion on Major Federal Programs**

As described in Finding No. 2015-003 in the accompanying schedule of findings and questioned costs, the Department did not comply with requirements regarding:

<b>CFDA Number</b>	<b>Name of Federal Program</b>	<b>Compliance Requirement</b>	<b>Ref. No.</b>
93.044 93.045 93.053	Aging Cluster	Cash Management	2015-003
93.069	Public Health Emergency Preparedness	Cash Management	2015-003
93.268	Immunization Cooperative Agreements	Cash Management	2015-003
93.959	Block Grants for Prevention and Treatment of Substance Abuse	Cash Management	2015-003

Compliance with such requirements is necessary, in our opinion, for the Department to comply with the requirements applicable to those programs.

**Qualified Opinion on the Major Programs**

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion on Major Federal Programs paragraph, the Department complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal programs identified in the Basis for Qualified Opinion on Major Federal Programs paragraph for the fiscal year ended June 30, 2015.

**Unmodified Opinion on Each of the Other Major Federal Programs**

In our opinion, the Department 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 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 fiscal year ended June 30, 2015.

## Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Finding No. 2015-004 to 2015-07. Our opinion on each major federal program is not modified with respect to these matters.

The Department's response to the noncompliance findings identified in our audit are described in the accompanying corrective action plan. The Department's response was 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 Department 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 Department'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 federal 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 Department'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 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 Finding No. 2015-003 to be a material weakness.

*A significant deficiency in internal control over compliance* is a deficiency, or a 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 Finding No. 2015-004 to 2015-007 to be significant deficiencies.

The Department's response to the internal control over compliance findings identified in our audit is described in the accompanying corrective action plan. The Department's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

*N&K CPAs, Inc.*

Honolulu, Hawaii  
March 7, 2016

**PART IV**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**Department of Health  
State of Hawaii  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 30, 2015**

**SECTION I - SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?  yes  no

Significant deficiency(ies) identified?  yes  none reported

Noncompliance material to the financial statements noted?  yes  no

**Federal Awards**

Internal control over major program:

Material weakness(es) identified?  yes  no

Significant deficiency(ies) identified?  yes  none reported

Type of auditor's report issued on compliance for major programs: Qualified except for CFDA No: 10.557, 66.458 and 66.468

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?  yes  no

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
<b>Department of Health &amp; Human Services</b>	
Aging Cluster	
93.044	Special Programs for Aging - Title III Part B - Grants for Supportive Services and Senior Centers
93.045	Special Programs for Aging - Title III Part C - Nutrition Services
93.053	Nutrition Services Incentive Program
93.069	Public Health Emergency Preparedness
93.268	Immunization Cooperative Agreements
93.959	Block Grants for Prevention and Treatment of Substance Abuse
<b>Department of Agriculture</b>	
10.557	Special Supplemental Nutrition Program for Women, Infants and Children

**Department of Health**  
**State of Hawaii**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**  
**Fiscal Year Ended June 30, 2015**

**SECTION I - SUMMARY OF AUDITOR'S RESULTS (Continued)**

<u>CFDA Number</u>	<u>Name of Federal Program</u>
	<b>Environmental Protection Agency</b>
66.458	Capitalization Grants for Clean Water State Revolving Funds
66.458	ARRA - Capitalization Grants for Clean Water State Revolving Funds
66.468	Capitalization Grants for Drinking Water State Revolving Funds

Dollar threshold used to distinguish between Type A  
and Type B programs: \$3,000,000

Auditee qualified as a low-risk auditee?       yes       no

**Department of Health  
State of Hawaii  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
Fiscal Year Ended June 30, 2015**

**SECTION II - FINANCIAL STATEMENT FINDINGS**

**Ref.  
No.**

**Internal Control Findings**

**2015-001 Department of Human Services Transactions (Significant Deficiency)**

**Criteria:** In accordance with GASB 34, paragraph 12e, the Department is required to:

*“Measure and report all assets (both financial and capital), liabilities, revenues, expenses, gains, and losses using the economic resources measurement focus and accrual basis of accounting.”*

In order to report on the accrual basis of accounting, the Department needs to assess all amounts due to and from other State Agencies for services that were provided throughout the year.

In addition, the Department’s management makes the following representation to us before we complete our audit of the financial statements:

*“We understand that as part of your audit, you prepared the adjusting journal entries necessary to convert our cash basis records to the accrual basis of accounting and acknowledge that we have reviewed and approved those entries and accepted responsibility for them.”*

**Condition, Cause and Effect:** The Department’s Adult Mental Health Division (AMHD) continues to work with the State of Hawaii, Department of Human Services (DHS) to accurately and timely determine the settlement of Medicaid related transactions for financial reporting purposes, which could lead to a material misstatement in the Department’s financial statements. We noted that during the year AMHD billings to DHS for services were billed up to a year later than the date the services were provided. Subsequent to implementing the corrective action plan for finding 2014-001, the Department was able to process their billings more timely.

**Recommendation:** The Department should continue to work on becoming current on billings to DHS. It should also work with DHS to ensure that DHS completes reconciliations of Medicaid payments and communicates over and underpayments in a timely manner.

**Department of Health  
State of Hawaii  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
Fiscal Year Ended June 30, 2015**

**SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)**

**Ref.  
No. Internal Control Findings (Continued)**

**2015-002 Reliance on Third Party Certifications (Significant Deficiency)**

**Criteria:** Section 342G-1 05, Hawaii Revised Statutes (HRS), states that payment of the deposit beverage container fee and deposits shall be made monthly, based on inventory reports of the deposit beverage distributors. All deposit beverage distributors shall submit to the Department documentation in sufficient detail that identifies the net number of deposit beverage containers sold, donated, or transferred, by container size and type.

In addition, Section 342G-110, HRS, specifies that the deposit on each filled deposit beverage container shall be paid by the beverage distributor, who manufactures or imports beverages in deposit beverage containers. Beverage distributors shall also pay a deposit beverage container fee and register with the State.

Section 342G-1 19, HRS, specifies that the Department shall pay certified redemption centers handling fees and deposit refunds based on collection reports submitted by the redemption centers. The redemption reports include the number or weight of deposit beverage containers of each material type accepted at the redemption center for the reporting period; the amount of refunds paid out by material type; the number or weight of deposit beverage containers of each material type transported out of state or to a permitted recycling facility; and copies of out-of-state transport and weight receipts or acceptance receipts from permitted recycling facilities. Additionally, Section 11-282-47, Hawaii Administrative Rules (HAR), states that the Department shall pay certified redemption centers handling fees and refund values based on reports submitted by the redemption centers to the Department.

Section 342G-103, HRS, requires all beverage distributors operating within the State to register with the Department and maintain records reflecting the manufacture of their beverages in deposit beverage containers as well as the importation and exportation of deposit beverage containers. The records shall be made available, upon request, for inspection by the Department.

Similarly Section 342 G-1 21, HRS, requires distributors and redemption centers to make their records available upon request by the Department, a duly authorized agent of the Department, or the Office of the Auditor.

**Condition, Cause and Effect:** The Deposit Beverage Container Program (Program) receives beverage container deposits and container fees from distributors and refunds deposits and pays handling fees to redemption centers based on certified information. The Program relies on certifications from distributors to support deposits and container fees received. The Program also relies on certifications from redemption centers to support deposit refunds and handling fees paid. Overreliance

**Department of Health  
State of Hawaii  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
Fiscal Year Ended June 30, 2015**

**SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)**

Ref.

No.

**Internal Control Findings (Continued)**

**2015-002 Reliance on Third Party Certifications (Significant Deficiency) (Continued)**

on the self-reporting by distributors and redemption centers may result in underpayments on deposits and the related container fees received by the Department to administer the program, overpayments of deposit refunds and handling fees to redemption centers, and an overstated redemption rate. An overstated redemption rate could result in a material misstatement in the Department's financial statements, as well as higher container fees for consumers to support the program.

The Program could mitigate the risk of fraud (underpayments by distributors and overpayments to redemption centers) by implementing a systematic process for monitoring the activities of and reports submitted by distributors and redemption centers. However, due to insufficient staff positions and turnover, management has been unable to establish a systematic monitoring process.

**Recommendation:** We recommend that the Program implement a systematic process and direct a Department personnel to oversee distributors and redemption centers, including conducting regular audits of reports submitted and payments made by distributors and reports submitted for deposit refund and handling fee requests from redemption centers.

**Department of Health  
State of Hawaii  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
Fiscal Year Ended June 30, 2015**

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

<b>Ref. No.</b>	<b>Compliance and Internal Control Findings</b>	<b><u>Questioned Costs</u></b>
<b>2015-003</b>	<b>Cash Management (Material Weakness)</b>	
	<b>Federal agency:</b> Department of Health and Human Services	
	<b>CFDA No.:</b> 93.044, 93.045, 93.053, 93.069, 93.268, and 93.959	
	<b>Programs:</b> Aging Cluster Special Programs for Aging - Title III Part B - Grants for Supportive Services and Senior Centers; Special Programs for Aging - Title III Part C - Nutrition Services; Nutrition Services Incentive Program; Public Health Emergency Preparedness (PHEP); Immunization Cooperative Agreements; Block Grants for Prevention and Treatment of Substance Abuse	
<b>Federal award no. and Year:</b>	14AAHIT3SS	10/01/2013 - 09/30/2014
	14AAHIT3CM	10/01/2013 - 09/30/2014
	14AAHIT3HD	10/01/2013 - 09/30/2014
	14AAHIT3PH	10/01/2013 - 09/30/2014
	14AAHIT3FC	10/01/2013 - 09/30/2014
	14AAHIT7EA	10/01/2013 - 09/30/2014
	14AAHIT7OM	10/01/2013 - 09/30/2014
	14AAHINSIP	10/01/2013 - 09/30/2014
	15AAHINSIP	10/01/2014 - 09/30/2015
	15AAHIT3SS	10/01/2014 - 09/30/2015
	15AAHIT3CM	10/01/2014 - 09/30/2015
	15AAHIT3HD	10/01/2014 - 09/30/2015
	15AAHIT3PH	10/01/2014 - 09/30/2015
	15AAHIT3FC	10/01/2014 - 09/30/2015
	15AAHIT7EA	10/01/2014 - 09/30/2015
	15AAHIT7OM	10/01/2014 - 09/30/2015
	5U90TP000513-03	07/01/2014 - 06/30/2015
	5H231P000721-02	01/01/2014 - 12/31/2014
	5H231P000721-03	01/01/2015 - 12/31/2015

**Department of Health  
State of Hawaii  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
Fiscal Year Ended June 30, 2015**

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

<u>Ref. No.</u>	Compliance and Internal Control Findings (Continued)	<u>Questioned Costs</u>
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**2015-003 Cash Management (Material Weakness) (Continued)**

<b>Federal award</b>	2B08TI010015-13	10/01/2012 - 09/30/2014
<b>no. and Year:</b>	2B08TI010015-14	10/01/2013 - 09/30/2015
	3B08TI010015-13	10/01/2012 - 09/30/2014
	3B08TI010015-14	10/01/2013 - 09/30/2015

**Criteria:** The federal award programs noted above are not subject to the Treasury-State Agreement and, as such, are subject to 31 CFR 205, Subpart B, which states:

“The timing and amount of funds transfers must be as close as is administratively feasible to a State’s actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs. States should exercise sound cash management in funds transfers to subgrantees in accordance with OMB Circular A-102...”

**Condition:** Systemic problem. During our testing of the Department’s cash management procedures, we could not verify whether the State of Hawaii, Department of Accounting and General Services (DAGS) disbursed funds from federal sources as close as administratively feasible to the Department’s disbursements for the federal award programs identified above after the Department drew down the funds, in accordance with 31 CFR 205.

During the fiscal year ended June 30, 2015, the Department expended the following amounts under the following major programs as reported in the schedule of expenditures of federal awards on pages 66 - 70:

CFDA 93.044, 93.045, and 93.053	\$ 5,957,593
CFDA 93.069	6,337,118
CFDA 93.268 (excluding non-cash expenditures)	2,773,756
CFDA 93.959	<u>7,732,997</u>
	<u>\$ 22,801,464</u>

**Cause:** The Department draws down federal funds that it estimates will be needed based on the vouchers processed daily. However, since deposits must be posted prior to the processing of payments or disbursing of the funds, it is difficult for the Department to disburse federal funds in accordance with 31 CFR 205, and we could not verify compliance with 31 CFR 205.

**Department of Health**  
**State of Hawaii**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**  
**Fiscal Year Ended June 30, 2015**

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

<u>Ref.</u> <u>No.</u>	Compliance and Internal Control Findings (Continued)	<u>Questioned</u> <u>Costs</u>
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**2015-003 Cash Management (Material Weakness) (Continued)**

**Effect:** Noncompliance with federal regulations could result in a loss of funding that may jeopardize the operations of the Department's federally funded programs. In addition, those programs ordinarily subject to 31 CFR 205, Subpart B may be required to follow the more restrictive requirements of 31 CFR 205, Subpart A.

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**Recommendation:** We recommend that the Department work with DAGS and the Department of Budget and Finance to ensure timely disbursement of federal funds in accordance with 31 CFR 205.

**Department of Health  
State of Hawaii  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
Fiscal Year Ended June 30, 2015**

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

<b>Ref. No.</b>	<b>Compliance and Internal Control Findings (Continued)</b>	<b>Questioned Costs</b>
<b>2015-004</b>	<b>Allowable Costs/Cost Principles - Fringe Benefits (Significant Deficiency)</b>	
	<b>Federal agency:</b> Department of Health and Human Services Department of Agriculture	
	<b>CFDA No.:</b> 93.044, 93.045, 93.053, 93.069, 93.268 and 10.557	
	<b>Program:</b> Aging Cluster Special Programs for Aging - Title III Part B - Grants for Supportive Services and Senior Centers; Special Programs for Aging - Title III Part C - Nutrition Services Public Health Emergency Preparedness Immunization Cooperative Agreements Special Supplemental Nutrition Program for Women, Infants and Children (WIC)	
	<b>Federal award no. and Year:</b>	
	14AAHIT3SS	10/01/2013 - 09/30/2014
	14AAHIT3CM	10/01/2013 - 09/30/2014
	14AAHIT3HD	10/01/2013 - 09/30/2014
	14AAHIT3PH	10/01/2013 - 09/30/2014
	14AAHIT3FC	10/01/2013 - 09/30/2014
	14AAHIT7EA	10/01/2013 - 09/30/2014
	14AAHIT7OM	10/01/2013 - 09/30/2014
	14AAHINSIP	10/01/2013 - 09/30/2014
	15AAHINSIP	10/01/2014 - 09/30/2015
	15AAHIT3SS	10/01/2014 - 09/30/2015
	15AAHIT3CM	10/01/2014 - 09/30/2015
	15AAHIT3HD	10/01/2014 - 09/30/2015
	15AAHIT3PH	10/01/2014 - 09/30/2015
	15AAHIT3FC	10/01/2014 - 09/30/2015
	15AAHIT7EA	10/01/2014 - 09/30/2015
	15AAHIT7OM	10/01/2014 - 09/30/2015
	5U90TP000513-03	07/01/2014 - 06/30/2015

**Department of Health  
State of Hawaii  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
Fiscal Year Ended June 30, 2015**

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

<u>Ref. No.</u>	Compliance and Internal Control Findings (Continued)	<u>Questioned Costs</u>
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**2015-004 Allowable Costs/Cost Principles – Accrued Leave (Significant Deficiency) (Continued)**

<b>Federal award no. and Year:</b>	5H231P000721-02	01/01/2014 - 12/31/2014
	5H231P000721-03	01/01/2015 - 12/31/2015
	7HI700HI7	10/01/2013 - 09/30/2015

**Criteria:** In accordance with OMB Circular A-87, "when a governmental unit uses the cash basis of accounting, the cost of leave is recognized in the period that the leave is taken and paid for. Payments for unused leave when an employee retires or terminates employment are allowable in the year of payment provided they are allocated as a general administrative expense to all activities of the governmental unit or component."

**Condition:** Systemic Problem. During our testing of payroll for a major federal program in the prior fiscal year, we noted the payout for an employee's leave that had accrued through their termination was charged entirely to the federal award. We noted similar findings in the current year where federal funds were used to pay out accrued leave for the Aging Cluster, PHEP, Immunization, and WIC programs.

**Cause:** Based on further inquiry with Department personnel, we noted that payments for accrued leave for terminated employees are charged as direct costs to the employees' respective program(s).

**Effect:** Unallowable costs were charged to major federal programs as follows:

CFDA No. 93.044, 93.045, and 93.053	\$ 22,903
CFDA No. 93.069	19,393
CFDA No. 93.268	1,857
CFDA No. 10.557	49,993
Other non-major federal programs	<u>187,904</u>
	<u>\$ 282,050</u>

**Recommendation:** The Department should review and correct its payout process for accrued leave to prevent future errors.

**Department of Health**  
**State of Hawaii**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**  
**Fiscal Year Ended June 30, 2015**

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

<u>Ref. No.</u>	Compliance and Internal Control Findings (Continued)	<u>Questioned Costs</u>
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**2015-005 Matching, Level of Effort, Earmarking (Significant Deficiency)**

**Federal agency:** Department of Health and Human Services

**CFDA No.:** 93.069

**Program:** Public Health Emergency Preparedness

**Federal award no. and Year:** 5U90TP000513-03      07/01/2014 - 06/30/2015

**Criteria:** PHEP is required to provide a match of contributions of 10% of federal awards. Matching may be in the form of allowable costs incurred or in-kind contributions. Matching may be provided directly or through donations from public or private entities and may be in cash or in-kind donation. Amounts provided by the federal government, or services assisted or subsidized to any significant extent by the federal government, may not be included in determining the amount. The program should complete records to corroborate that the values placed on in-kind contributions in accordance with OMB Circular A-87, program regulations, and terms of the award.

**Condition:** During our testing of in-kind match for volunteer hours, we noted the following:

- Seven (7) instances where the pay rate used to calculate match was for a period subsequent to the date of the event.
- One (1) instance where documentation to support the matching amount was not provided.
- No secondary reviews of match calculations were performed.

**Cause:** PHEP does not have policies and procedures to ensure that matching requirements are met.

**Effect:** We were unable to determine whether the support for the matching amount was accurate.

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**Recommendation:** PHEP personnel should develop policies and procedures to ensure the match is calculated properly and records are maintained. PHEP should also consider having a secondary review to ensure in-kind matching for volunteer service is calculated correctly.

**Department of Health  
State of Hawaii  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
Fiscal Year Ended June 30, 2015**

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

<u>Ref. No.</u>	<b>Compliance and Internal Control Findings (Continued)</b>	<u>Questioned Costs</u>
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**2015-006 Special Tests (Significant Deficiency)**

**Federal agency:** Department of Health and Human Services

**CFDA No.:** 93.268

**Program:** Immunization Cooperative Agreements

<b>Federal award</b>	5H23IP000721-03	01/01/2015 - 12/31/2015
<b>no. and Year:</b>	5H23IP000721-02	01/01/2014 - 12/31/2014

**Criteria:** The 2015 Vaccines for Children (VFC) Operations Guide by the Center for Disease Control Module 3 - Quality Assurance and Program Accountability states:

Awardees must maintain written policies and protocols on:

1. Identifying and selecting providers who should receive a VFC compliance site visit.
2. Scheduling VFC compliance site visits.
3. Preparing for VFC compliance site visits.
4. Conducting VFC compliance site visits
5. Documenting, reviewing, and reporting results of VFC compliance site visits.

All enrolled and active VFC providers must receive a VFC compliance site visit every other year.

**Condition:** Systemic Problem. The Department does not have written procedures for overseeing program-enrolled providers that allows for sampling of provider's inventory records and assessment of storage procedures every other year.

**Cause:** The Department has been utilizing the 2015 Vaccines for Children Operations Guide by the Center for Disease Control as their written policies and protocols. Although the Department has procedures to ensure that VFC providers receive a VFC compliance site visit every other year, no written policies and protocols exist.

**Department of Health**  
**State of Hawaii**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**  
**Fiscal Year Ended June 30, 2015**

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

<u>Ref.</u> <u>No.</u>	Compliance and Internal Control Findings (Continued)	<u>Questioned</u> <u>Costs</u>
<b>2015-006</b>	<b>Special Tests (Significant Deficiency) (Continued)</b>	
	<p><b>Effect:</b> Noncompliance with special tests of the grant could result in sanctions by DHHS including increased oversight and/or reduction or elimination of federal awards.</p>	\$ <u>    --</u>
	<p><b>Recommendation:</b> We recommend that the Department develop written policies and protocols for overseeing program-enrolled providers. In developing their written policies and protocols, the Department should use the 2015 Vaccines for Children Operations Guide by the Center for Disease Control as a resource.</p>	

**Department of Health  
State of Hawaii  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
Fiscal Year Ended June 30, 2015**

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

<u>Ref. No.</u>	<b>Compliance and Internal Control Findings (Continued)</b>	<u>Questioned Costs</u>
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**2015-007 Subrecipient Monitoring (Significant Deficiency)**

**Federal agency:** Department of Health and Human Services

**CFDA No.:** 93.959

**Program:** Block Grants for Prevention and Treatment of Substance Abuse

<b>Federal award no. and Year:</b>	2B08TI010015-13	10/01/2012 - 09/30/2014
	2B08TI010015-14	10/01/2013 - 09/30/2015
	3B08TI010015-13	10/01/2012 - 09/30/2014
	3B08TI010015-14	10/01/2013 - 09/30/2015

**Criteria:** The pass-through entity is required to monitor the activities of the subrecipient in several phases of the audit:

1. Award identification
2. During-the-award monitoring
3. Subrecipient audits
4. Pass-through entity impact.

The Department's Alcohol and Drug Abuse Division (ADAD) is the pass-through entity and the subrecipients are the agencies that provide prevention and treatment services for those individuals who are abusing substances and need assistance. ADAD is required to monitor the agencies that are providing the assistance to ensure that they are adhering to the program requirements.

**Condition:** During our testing of the Department's subrecipient monitoring procedures, we could not verify whether monitoring procedures were performed for 1 of the 3 treatment providers sampled for testing. There were 16 subrecipients with 25 treatment contracts active during the fiscal year. Per review of the treatment provider's file and inquiry with program management, it was noted that the Program Monitoring Report for this provider was missing. As a result, we could not verify whether monitoring procedures were performed in this instance. Additionally, for this same provider, we could not verify whether a corrective action plan was completed and submitted to the Department in response to the findings noted in the program monitoring performed.

**Department of Health**  
**State of Hawaii**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**  
**Fiscal Year Ended June 30, 2015**

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

<u>Ref. No.</u>	<u>Compliance and Internal Control Findings (Continued)</u>	<u>Questioned Costs</u>
<b>2015-007</b>	<b>Subrecipient Monitoring (Significant Deficiency) (Continued)</b>	
	<p><b>Cause:</b> The misfiling of the subrecipient monitoring reports and corrective action plan is attributed to clerical oversight and employee turnover.</p> <p><b>Effect:</b> Noncompliance with subrecipient monitoring could result in sanctions by DHHS including increased oversight and/or reduction or elimination of federal awards.</p>	\$ <u>          --</u>
	<p><b>Recommendation:</b> We recommend that the Department develop formal oversight procedures to ensure that all steps of the subrecipient monitoring process are fully completed and are performed on a timely manner.</p>	

**PART V**  
**PRIOR YEAR FINDINGS AND QUESTIONED COSTS**

**Department of Health  
State of Hawaii  
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 30, 2015**

This section contains the current status of prior audit recommendations. The recommendations are referenced to the pages of the previous audit report for the fiscal year ended June 30, 2014, dated March 11, 2015.

**SECTION II - FINANCIAL STATEMENT FINDINGS**

<u>Recommendations</u>	<u>Status</u>
<p><b>2014-001 Department of Human Service Transactions</b> (page 72)</p> <p>The Department should continue to work on becoming current on billings to DHS. It should also work with DHS to ensure that DHS completes reconciliations of Medicaid payments and communicates over and underpayments in a timely manner.</p>	<p>Accomplished. AMHD is current on billings to DHS. On a regular basis, denied claims are resubmitted to DHS in order to obtain payments for consumers who may have been determined to retroactively be Medicaid eligible. Claims can be submitted up to one year after the date of services were provided.</p>
<p><b>2014-002 Reliance on Third Party Certifications</b> (pages 73-74)</p> <p>We recommend that the Program implement a systematic process and direct a Department personnel to oversee distributors and redemption centers, including conducting regular audits of reports submitted and payments made by distributors and reports submitted for deposit refund and handling fee requests from redemption centers.</p>	<p>The Program is making every effort towards establishing a systematic process for verifying the contents of reports and claims submitted by distributors and certified redemption centers. Two accountants and an account clerk II position, numbered 121556, 121557, and 121558 respectively, were recently established in DOH. These positions were authorized for the Solid Waste Management (OSHWM) under Act 122/SLH 2014. The Program is actively recruiting but finding it difficult to fill the new accountant positions. After four rounds of interviews, candidates either withdrew from consideration or turned down offers from the Program. The low number of candidates interviewing for the accountant positions is also constraining the Program's efforts to hire. To</p>

**Department of Health  
State of Hawaii  
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (Continued)  
Fiscal Year Ended June 30, 2015**

**SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)**

<u>Recommendations</u>	<u>Status</u>
<p><b>2014-002</b>    <b>Reliance on Third Party Certifications</b> (pages 73-74) (Continued)</p>	<p>date, only a total of 7 candidates interviewed for the accountant positions. The Program is anticipating the receipt of the first list of candidates for the account clerk position. The account clerk position was established last due to the Program's unsuccessful attempts to upgrade the position. The lack of candidates and interest in the accountant positions is unfortunately making it difficult for the Program to develop and auditing programs. Limiting resources has slowed the Program's progress in developing a solicitation to procure an auditing firm to assist in the development of an auditing program.</p> <p>Not Accomplished. Refer to finding 2015-002.</p>
<p><b>2014-003</b>    <b>Schedule of Expenditures of Federal Awards</b> (page 75)</p> <p>Department personnel should exercise greater care in the preparation and review of its schedule of expenditures of Federal awards.</p>	<p>Accomplished. No similar instances noted in the current year.</p>

**Department of Health  
State of Hawaii  
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (Continued)  
Fiscal Year Ended June 30, 2015**

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

<u>Recommendations</u>	<u>Status</u>
<p><b>2014-004 Cash Management</b> (pages 76-78)</p> <p>We recommend that the Department work with DAGS and B&amp;F to ensure timely disbursement of federal funds in accordance with 31 CFR 205.</p>	<p>The State has been looking at its processes for managing federal awards and is taking steps towards addressing the issues relating to cash management. This affects all State agencies in the Executive Branch that receive Federal awards and DOH is waiting for the State to provide guidance and changes to process. Once guidance and processes are received from the State Office of Budget and Finance (B &amp; F), DOH will work to comply with the requirements.</p> <p>Not Accomplished. Refer to finding 2015-003</p>
<p><b>2014-005 Subrecipient Monitoring</b> (pages 79-80)</p> <p>We recommend that the program ensure timely monitoring on a regular basis. The program should adhere to its policies and procedures to properly monitor that subrecipients obtain audits in accordance with OMB Circular A-133, review the audit reports, and issue management decisions on any findings applicable to the program.</p>	<p>Accomplished. No similar instances noted in the current year.</p>
<p><b>2014-006 Allowable Costs/Cost Principles - Payroll</b> (pages 81-82)</p> <p>The Department should obtain semi-annual certifications from all employees that spend 100% of their time on federally funded grants, confirming that they worked solely on grant related activities. The certification should be signed by both the employees and their supervisors.</p>	<p>Accomplished. No similar instances noted in the current year.</p>
<p><b>2014-007 Reporting</b> (pages 83-84)</p> <p>We recommend that the Department adhere to its policies and procedures in order to comply with federal regulations and submit any required FFATA reports for its programs.</p>	<p>Accomplished. No similar instances noted in the current year.</p>

**Department of Health  
State of Hawaii  
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (Continued)  
Fiscal Year Ended June 30, 2015**

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

<u>Recommendations</u>	<u>Status</u>
<p><b>2014-008 Allowable Costs/Cost Principles - Fringe Benefits</b> (pages 85-87)</p> <p>The Department should review and correct its payout process for accrued leave to prevent future errors.</p>	<p>This issue affects all State agencies and B&amp;F is aware of the issue and is looking at possible alternatives to resolve this issue of vacation payouts for federally funded employees who terminate from State services. To resolve this issue in the short term, all State departments are being advised to utilize non-Federal funds to payout the accrued vacation to employees funded by Federal projects at the time of termination/separation from service.</p> <p>Not accomplished. Refer to finding 2015-004</p>
<p><b>2014-009 Matching, Level of Effort, Earmarking</b> (pages 88-89)</p> <p>PHEP personnel should develop policies and procedures to ensure the match is calculated properly and records are maintained. PHEP should also consider having a secondary review to ensure in-kind matching for volunteer service is calculated correctly.</p>	<p>A written policy/procedure document dated May 5, 2015 has been implemented and training for all affected employees is ongoing.</p> <p>Not accomplished. Refer to finding 2015-005</p>
<p><b>2014-010 Reporting</b> (page 90)</p> <p>We recommend that the CWSRF implement policies and procedures to ensure reports are submitted in a timely matter for applicable ARRA awards.</p>	<p>Accomplished. No similar instances noted in the current year.</p>
<p><b>2014-011 Special Tests</b> (pages 91-92)</p> <p>We recommend that the Department develop written policies and protocols for overseeing program-enrolled providers. In developing their written policies</p>	<p>Partially accomplished. Refer to finding 2015-006</p>

**Department of Health  
State of Hawaii  
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (Continued)  
Fiscal Year Ended June 30, 2015**

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

<b>Recommendations</b>	<b>Status</b>
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**2014-011 Special Tests** (pages 91-92) (Continued)

and protocols, the Department should use the 2015 Vaccines for Children Operations Guide by the Center for Disease Control as a resource. The Department should ensure that monitoring procedures are performed to ensure that VFC providers receive a VFC compliance site visit every other year.

**PART IV**  
**CORRECTIVE ACTION PLAN**

DAVID Y. IGE  
GOVERNOR OF HAWAII



VIRGINIA PRESSLER, M.D.  
DIRECTOR OF HEALTH

STATE OF HAWAII  
DEPARTMENT OF HEALTH  
P. O. BOX 3378  
HONOLULU, HI 96801-3378

In reply, please refer to:  
File: A 16-0017

March 7, 2016

Ms. Jan K. Yamane  
Office of the Auditor, State of Hawaii  
465 S. King Street, Room 500  
Honolulu, Hawaii 96813

Subject: Response to "Financial Audit of the Department of Health  
State of Hawaii for the Fiscal Year Ended June 30, 2015"

Dear Ms. Yamane:

Attached are the Department of Health's comments of the audit findings for the above-mentioned audit of the Department of Health.

We appreciate the opportunity to comment on the report

Sincerely,

A handwritten signature in blue ink that reads "Virginia Pressler".

Virginia Pressler, MD  
Department of Health

Attachment

SUBJECT: FINANCIAL AUDIT OF THE DEPARTMENT OF HEALTH, STATE OF HAWAII, FOR THE FISCAL YEAR ENDED JUNE 30, 2015

The Department of Health (DOH) appreciates the opportunity to comment on the subject report. We realize that audit findings and recommendations from the auditor is a management tool to assist DOH in making ongoing improvements to our existing processes in order to better manage and monitor these sources of funding.

We would like to comment on "Part IV – Schedule of Findings and Questioned Costs, Section II – Financial Statement Findings" portion of the report.

- Reference No. 2015-001 Department of Human Services Transactions (Significant Deficiency)

This is a finding from the audit for the period ending June 30, 2014 (Finding 2014-001). Since this time, AMHD has reviewed their policy and procedures regarding reimbursement of claims from DHS and has implemented new policies and procedures to ensure timely billings. AMHD is now current on billings to DHS. On a regular basis, denied claims are resubmitted to DHS in order to obtain payment for consumers who may have been determined to retroactively be Medicaid eligible. Claims can be submitted up to one year after the date the services were provided. Communication with DHS is more frequent and this has helped to improve the billing processing time.

Person Responsible: AMHD Public Health Administrative Officer VI and Chief Information Officer

Anticipated Date of Completion: Current

- Reference No. 2015-002 Reliance on Third Party Certifications (Significant Deficiency)

The audit finds that there is a reliance on self-reporting of distributors and redemption centers for the beverage redemption fees program administered by the DOH. Positions have been established in the program (two account clerk positions and an accountant position), but there is currently no process implemented to audit the reporting records of the distributors and redemptions centers. It is anticipated that once the positions are filled, the implementation of auditing and monitoring the beverage redemption fee program will commence. The program is making every effort to establish a systematic process for verifying contents of reports and claims submitted by distributors and certified redemption centers.

Person Responsible: Solid Waste Management Coordinator, OSWM, Solid and Hazardous Waste Branch.

Anticipated Date of Completion: June 30, 2017

- Reference No. 2015-003 Cash Management (Material Weakness)

The audit finds that the drawdown of funds for federal awards are not in compliance with 31 CFR 205 that requires disbursement of federal funds as close as administratively possible to DOH's disbursement for the federal award programs. The State's requirement for disbursing the drawdown of funds is a very cumbersome process. It requires validation from State Budget and Finance and record the deposits in the State's Financial Accounting Management and Information System (FAMIS) by the State Department of Accounting and General Services (DAGS). The processes for obtaining validation and posting to the FAMIS take approximately 5 to 10 days and it is only when these processes are secured, can DOH disburse the funds to vendors. This process affects all State agencies that receive federal funding. DAGS and B&F are reviewing the State's Financial Accounting Management and Information System (FAMIS) and is looking at the policies and processes currently in place to determine what types of modifications are needed for improvements.

Person Responsible: Administrative Services Officer and Fiscal Officer

Anticipated Date of Completion: Unknown

- Reference No. 2015-004 Allowable Costs/Cost Principles – Vacation Payout (Significant Deficiency)

DOH would like to request that this reference title be modified to "Allowable Costs/Cost Principles – Accrued Vacation and Vacation Payout." The issue of vacation payouts to employees who are federally funded is a Statewide issue and policies and procedures must be developed in collaboration with B&F and all State agencies. DOH has brought this to the attention of B&F and they will be addressing this issue for the State. DOH will work to develop and interim process for vacation payout in collaboration with B&F.

Person Responsible: Administrative Services Officer and Fiscal Officer

Anticipated Date of Completion: Unknown

- Reference No. 2015-005 Matching Level of Effort, Earmarking (Significant Deficiency)

The audit cited that the PHEP program does not have policies and procedures to ensure that matching requirements are met. Based on a previous audit finding, PHEP has developed policies and procedures and has developed a written policy dated May 5, 2015 that is distributed to all employees involved in the PHEP project. This is an ongoing process and the program will continue to inform its employees of the policies and procedures and monitor its matching requirements on a more frequent basis.

Person Responsible: BTP Sr. Data Processing Systems Analyst/BTP Education & Training Coordinator

Anticipated Date of Completion: June 30, 2017

- Reference No. 2015-006 Special Tests (Significant Deficiency)

The program will work on developing a comprehensive guide for Vaccines for Children (VFC) based on the current policies and procedures developed by the Center for Disease Control. The program's policies will incorporate the VFC Guide from the CDC into its own policies in efforts to better monitor its providers and increase oversight of the program.

Person Responsible: MS Immunization Branch Chief

Anticipated Date of Completion: June 30, 2017

- Reference No. 2015-007 Subrecipient Monitoring (Significant Deficiency)

The Alcohol and Drug Abuse Division (ADAD) recognizes the importance of monitoring subrecipient activities to ensure federal funds are utilized in accordance with identified standards and guidelines. The program's new division chief is evaluating the program's subrecipient monitoring policies, procedures and protocols to ensure they are up to date with state and federal guidelines as well as to ensure compliance. In cases where the Policy or protocol needs to be updated, the ADAD will document the updates accordingly. Additionally, ADAD will (1) review all subrecipient files to ensure monitoring related documentation is sufficient to verify monitoring activities are in compliance with federal programs standards, (2) include a review of the current monitoring and monitoring documentation protocols as an agenda item in all staff meetings within 3 months of the date of this report (May 2016), and (3) document ongoing evaluation of policies and protocols via manager meeting agenda and meeting notes; and convey any protocol changes made via the Program's SharePoint site and through all staff meetings as necessary.

Person Responsible: Division Chief of Alcohol and Drug Abuse Division

Anticipated Date of Completion: Current