

**Department of Human Services  
State of Hawaii**

Financial Statements  
June 30, 2016  
Together with Independent Auditor's Report

Submitted by

**THE AUDITOR  
STATE OF HAWAII**



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A Hawaii Limited Liability Partnership

March 21, 2017

Mr. Les Kondo, State Auditor  
Office of the Auditor  
State of Hawaii

Dear Mr. Kondo:

This is our report on the financial audit of the Department of Human Services of the State of Hawaii (DHS) as of and for the fiscal year ended June 30, 2016. Our audit was performed in accordance with the terms of our contract with the State of Hawaii and with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), *Government Auditing Standards*, Audits of States, Local Governments, and Non-Profit Organizations.

**OBJECTIVES OF THE AUDIT**

The primary purpose of our audit was to form an opinion on the fairness of the presentation of the DHS's basic financial statements as of and for the fiscal year ended June 30, 2016, and to comply with the requirements of the Uniform Guidance. The objectives of the audit were as follows:

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

## SCOPE OF THE AUDIT

Our audit was performed in accordance with auditing standards generally accepted in the United States of America as prescribed by the American Institute of Certified Public Accountants; *Government Auditing Standards*, issued by the Comptroller General of the United States; and the provisions of the Uniform Guidance. The scope of our audit included an examination of the transactions and accounting records of the DHS as of and for the fiscal year ended June 30, 2016.

## ORGANIZATION OF THE REPORT

This report is presented in six parts as follows:

- Part I – The basic financial statements and related notes of the DHS as of and for the fiscal year ended June 30, 2016, and our opinion on the basic financial statements.
- Part II – Our report on internal control over financial reporting and compliance.
- Part III – Our report on compliance with requirements applicable to each major program and internal control over compliance.
- Part IV – The schedule of findings and questioned costs.
- Part V – The summary schedule of prior audit findings.
- Part VI – Corrective action plan.

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

Sincerely,



Wilcox Choy  
Partner

## Table of Contents

	Page
 <b>PART I    FINANCIAL SECTION</b>	
Independent Auditor's Report	6 – 8
Management's Discussion and Analysis	9 – 19
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	20
Statement of Activities	21
Fund Financial Statements:	
Balance Sheet – Governmental Funds	22
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	23
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	24
Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances to the Statement of Activities	25
Statement of Revenues and Expenditures – Budget and Actual - General Fund	26
Statement of Revenues and Expenditures – Budget and Actual - Special Revenue Funds	27
Statement of Fiduciary Net Assets – Fiduciary Funds	28
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds	29
Notes to the Basic Financial Statements	30 – 57
Supplementary Information – Schedule of Expenditures of Federal Awards	59 – 62

**Table of Contents (continued)**

	Page
<b>PART II REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS</b>	64 – 65
<b>PART III REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY UNIFORM GUIDANCE</b>	67 – 70
<b>PART IV SCHEDULE OF FINDINGS AND QUESTIONED COSTS</b>	72 – 112
<b>PART V SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS</b>	114 – 175
<b>PART VI CORRECTIVE ACTION PLAN</b>	177 – 221

**PART I**

**FINANCIAL SECTION**



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A Hawaii Limited Liability Partnership

## **Independent Auditor's Report**

Office of the Auditor  
State of Hawaii

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Department of Human Services of the State of Hawaii (DHS), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the DHS's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the DHS, as of June 30, 2016, and the respective changes in financial position, and the respective budgetary comparison for the General Fund and Special Revenue Funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

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

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the DHS's basic financial statements. The schedule of expenditures of federal awards as required by the Office of Management and Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) 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 21, 2017 on our consideration of the DHS'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 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 DHS's internal control over financial reporting and compliance.

*KMH LLP*

KMH LLP

Honolulu, Hawaii

March 21, 2017

# **Department of Human Services State of Hawaii**

Management Discussion and Analysis  
June 30, 2016

This discussion and analysis of the financial performance of the Department of Human Services (DHS) provides an overview of the financial activities of the DHS for the fiscal year ended June 30, 2016. The intent of this discussion is to allow management to provide an objective and easily readable analysis of the financial activities of the DHS based on currently known facts, decisions, or conditions. Readers are encouraged to consider the information presented here in conjunction with the basic financial statements and other supplementary information.

## **OVERVIEW OF THE BASIC FINANCIAL STATEMENTS**

The Management's Discussion and Analysis (MD&A) serves as an introduction to the basic financial statements of the DHS. The basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the basic financial statements.

### ***Government-wide Financial Statements***

The government-wide financial statements provide a broad overview of the finances of the DHS using the economic resources measurement focus and accrual basis of accounting, in a manner similar to private-sector businesses. It provides both long-term and short-term information about the overall financial status of the DHS.

The statement of net position includes all of the assets and liabilities of the DHS, with the difference between the two reported as net position. This statement is similar to that of the balance sheet of a private-sector business. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the DHS is improving or deteriorating. This statement also provides information on how services were financed in the short-term as well as what remains for future spending.

The statement of activities presents information showing how net position changed during the fiscal year. All changes in net position are reported using the accrual method of accounting, similar to the method used by most private-sector businesses. Under the accrual basis of accounting, revenues are recognized when they are earned and expenses are reported when the goods or services are received, regardless of the timing of the related cash flows. The activities of the DHS are principally supported by appropriations made available by the State Legislature and intergovernmental revenues from the federal government (governmental activities). The DHS does not recover any portion of its costs through user fees or charges for services (business-type activities).

## Department of Human Services State of Hawaii

Management Discussion and Analysis (continued)  
June 30, 2016

### ***Fund Financial Statements***

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The DHS uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the DHS are divided between either governmental funds or fiduciary funds. Governmental funds are used to account for most, if not all, of a government entity's tax-supported activities. Fiduciary funds are used to account for resources that are held by a government entity as a trustee or agent for parties outside of the government entity. The resources of fiduciary funds cannot be used to support the government entity's own programs.

The fund financial statements of the DHS include the following types of funds:

**Governmental funds** - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources and balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government entity's near-term financing requirements. By comparing the governmental fund and government-wide financial statements, readers may better understand the long-term impact of the entity's near-term financing decisions. In order to facilitate a comparison between the governmental fund and government-wide financial statements, a reconciliation between the two is provided following each governmental fund financial statements.

**Fiduciary funds** - The fiduciary funds of the DHS consists of agency funds which are clearing accounts for assets held by the DHS in its role as custodian until the funds are allocated to the individuals, private organizations, or government agencies to which they belong. These activities are excluded from the government-wide financial statements of the DHS because the DHS cannot use these assets to finance its operations.

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

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

## Department of Human Services State of Hawaii

Management Discussion and Analysis (continued)  
June 30, 2016

### FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE FINANCIAL STATEMENTS

The following table presents a condensed government-wide statement of net position of the DHS as of June 30, 2016 and 2015.

#### Condensed Statement of Net Position

	2016	2015
Current Assets	\$ 464,668,228	\$ 493,107,820
Capital Assets, net	128,165,914	117,115,932
Total assets	<u>\$ 592,834,142</u>	<u>\$ 610,223,752</u>
Current Liabilities	\$ 375,466,648	\$ 413,500,018
Non-current Liabilities	15,574,716	9,264,229
Total liabilities	<u>391,041,364</u>	<u>422,764,247</u>
Net Position:		
Invested in capital assets	128,165,914	117,115,932
Unrestricted	73,626,864	70,343,573
Total net position	<u>201,792,778</u>	<u>187,459,505</u>
Total liabilities and net position	<u>\$ 592,834,142</u>	<u>\$ 610,223,752</u>

As noted earlier, an analysis of net position over time may be a useful indicator of whether a government entity's financial condition is growing stronger or weakening. During the fiscal year ended June 30, 2016, the combined net position of the DHS increased by approximately \$14 million.

The unrestricted net position of the DHS was approximately \$73.6 million as of June 30, 2016. The largest liabilities as of June 30, 2016, are the federal expenditures incurred but not yet reimbursed by the federal government as of June 30, 2016 and the estimated amount of medical assistance service provided as of June 30, 2016, for which the related claims and capitation fees will be processed and paid subsequent to June 30, 2016. For the unreimbursed federal expenses as of June 30, 2016 of \$165.4 million, the majority is an adjustment to the federal grant award for the medical assistance program, of which \$84.8 million will be received after June 30, 2016. Of the estimated \$148.8 million of medical assistance payable, the State's share of these costs is approximately \$85 million. The estimated federal share of these costs to be paid in the future was recorded as intergovernmental revenues in the current fiscal year and is included in the balance due from other governments. In addition to the estimated medical assistance payable, the liability for compensated absences totaling approximately \$13.9 million as of June 30, 2016, is not funded by state allotments until the employee uses the earned leave or is paid out upon termination. Therefore, there are no assets currently available to the DHS to pay for these liabilities as of June 30, 2016.

## Department of Human Services State of Hawaii

Management Discussion and Analysis (continued)  
June 30, 2016

The DHS reported a total of approximately \$128.1 million in net position invested in capital assets as of June 30, 2016. Although the DHS is not the legal owner of the state buildings that are reported as part of its capital assets, the portion of the state facilities used by the DHS are required to be reported as part of its capital assets. The DHS uses these capital assets to provide services; consequently, these assets are not available for future spending and the related annual depreciation expense of the cost of these facilities is included in the statement of activities for the fiscal year ended June 30, 2016.

The changes in the net position of the DHS from governmental activities are summarized below. The DHS directs its resources towards assisting people to meet their basic needs for food, shelter, medical care and other essentials for daily living. As such, the DHS does not conduct business-type activities and the accompanying analysis of the changes in net position focuses on the cost of services and who provides the funds to pay for the costs.

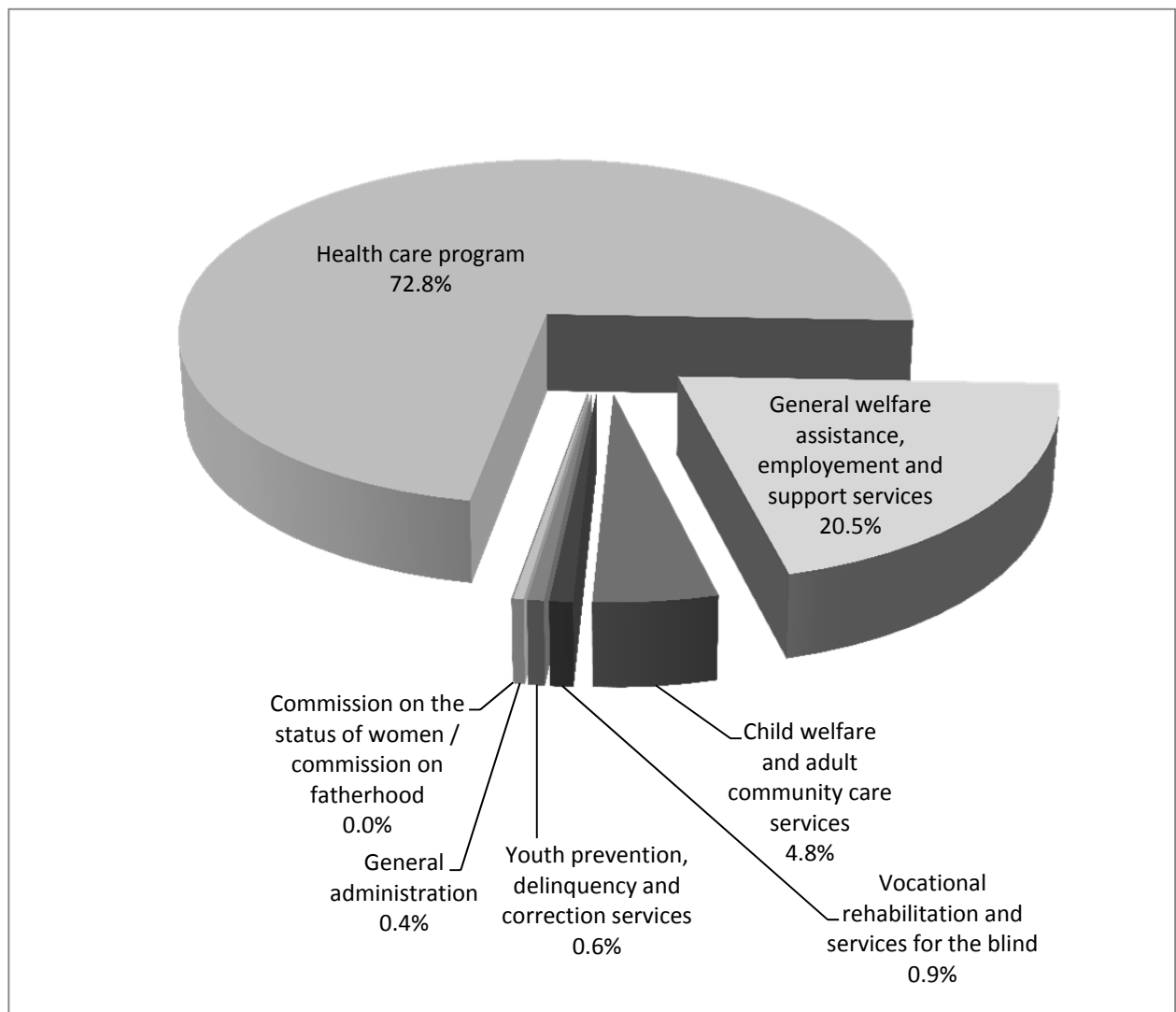
### Changes in Net Position

	2016	2015	Percent Change
Revenues:			
Program revenues	\$ 2,276,348,974	\$ 2,120,393,469	7.36%
General revenues	1,238,631,862	1,174,621,159	5.45%
Total revenues	<u>3,514,980,836</u>	<u>3,295,014,628</u>	6.68%
Expenses:			
Health care programs	2,547,635,739	2,247,186,277	13.37%
General welfare assistance, employment and support services	717,446,488	764,952,216	(6.21)%
Child welfare and adult community care services	166,694,329	156,813,975	6.30%
Vocational rehabilitation and services for the blind	31,830,104	27,705,150	14.89%
Youth prevention, delinquency and correction services	22,360,584	21,187,371	5.54%
General administration	14,190,170	14,074,988	0.82%
Commission on the status of women / commission on fatherhood	170,539	170,956	(0.24)%
Total expenses	<u>3,500,327,953</u>	<u>3,232,090,933</u>	8.30%
Change in net position, before transfers	<u>\$ 14,652,883</u>	<u>\$ 62,923,695</u>	

## Department of Human Services State of Hawaii

Management Discussion and Analysis (continued)  
June 30, 2016

The total cost of all programs and services was approximately \$3.5 billion, an 8.30% increase from the prior fiscal year. Health care and general welfare assistance programs comprised 72.8% and 20.5%, respectively, of the total costs. The following chart presents each major activity as a percent of the total cost of all DHS activities:

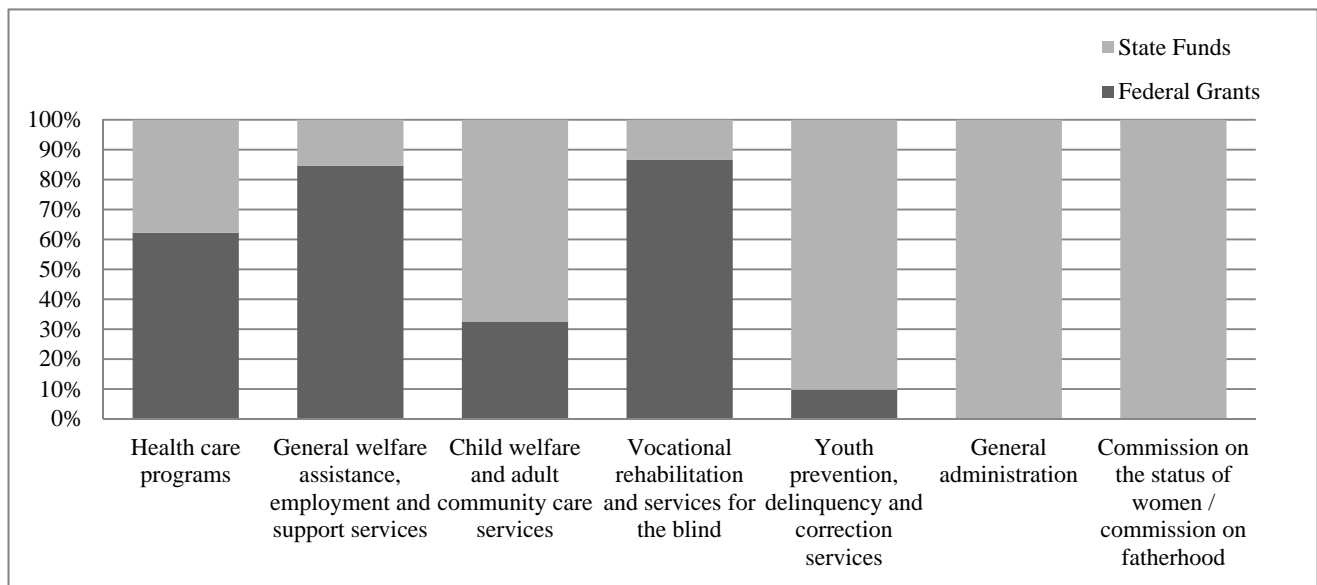


## Department of Human Services State of Hawaii

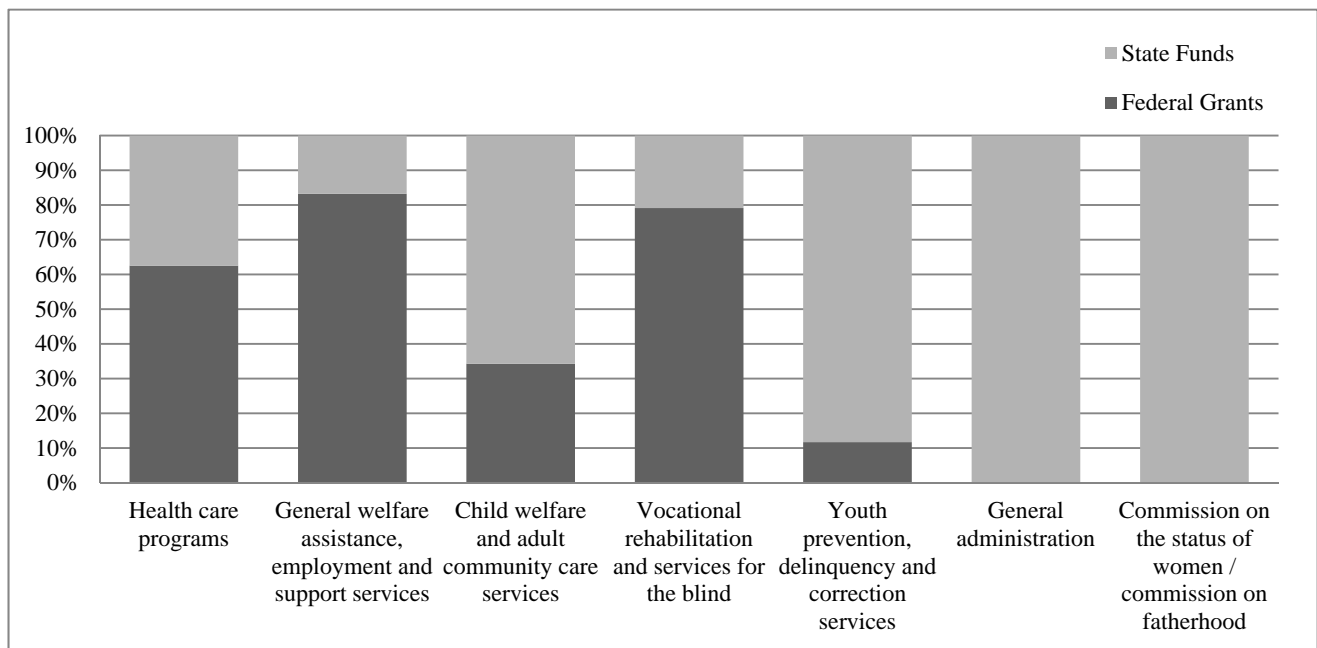
Management Discussion and Analysis (continued)  
June 30, 2016

Program revenues consist primarily of operating grants from the federal government. Revenues from these federal grants paid for 65.03% of the cost of all the DHS's activities. The following chart presents the percentage of costs funded by federal grants for each major activity of the DHS for the fiscal years ended June 30, 2016 and 2015:

Fiscal Year 2016



Fiscal Year 2015



## Department of Human Services State of Hawaii

Management Discussion and Analysis (continued)  
June 30, 2016

### FINANCIAL ANALYSIS OF THE FUND FINANCIAL STATEMENTS

As noted earlier, the DHS uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The DHS has two governmental fund types; the general fund and special revenue funds. The general fund is used to account for all financial resources except those required to be accounted for in another fund. The special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. In general, operating grants the DHS receives from the federal government are accounted for in the special revenue funds and all allotments of state funds are accounted for in the general fund along with any other resources available to the DHS that are not accounted for in the special revenue funds.

Total expenditures reported on an accrual basis increased by \$261 million over the prior fiscal year. This increase is primarily related to health care program costs administered by the DHS which have increased by approximately \$301.1 million or 13.33%. For the health care program, medical assistance increased due to an increase in the capitation rate and a rise in the federal matching percentage.

At June 30, 2016, the total governmental fund balance of the DHS consisted of committed, and assigned fund balance of approximately, \$2.7 million, and \$91.9 million, respectively. The committed fund balance of the special revenue funds totaling \$2.7 million is principally the result of amounts that are limited by the state law for specific use.

The following table presents total revenues and expenditures of the governmental funds of the DHS for the fiscal years ended June 30, 2016 and 2015:

	2016	2015	Percent Change
Revenues:			
State allotted appropriations	\$ 1,215,019,091	\$ 1,151,585,168	5.51%
Intergovernmental revenues	2,276,348,974	2,120,393,469	7.36%
Non-imposed employee fringe benefits	23,612,771	23,035,991	2.50%
Total	<u>\$ 3,514,980,836</u>	<u>\$ 3,295,014,628</u>	6.68%



## Department of Human Services State of Hawaii

Management Discussion and Analysis (continued)  
June 30, 2016

	2016	2015	Percent Change
Expenditures:			
Health care programs	\$ 2,559,757,248	\$ 2,258,652,829	13.33%
General welfare assistance, employment and support services	717,228,184	764,830,622	(6.22)%
Child welfare and adult community care services	159,541,247	156,798,501	1.75%
Vocational rehabilitation and services for the blind	31,744,294	27,649,384	14.81%
Youth prevention, delinquency and correction services	22,236,332	22,628,100	(1.73)%
General administration	14,148,192	13,266,108	6.65%
Commission on the status of women / commission on fatherhood	170,951	167,664	1.96%
Total	<u>\$ 3,504,826,448</u>	<u>\$ 3,243,993,208</u>	8.04%

### BUDGETARY ANALYSIS

As required by Section 37-68, Hawaii Revised Statutes, the DHS prepares a budget that becomes legally adopted when the State Legislature approves the executive budget with the enactment of an appropriations act. A comparison and analysis of the general fund is presented below as additional financial information:

	Original Budget	Final Budget	Actual on Budgetary Basis	Variance Favorable (Unfavorable)
Health care programs	\$ 960,787,664	\$ 946,776,216	\$ 926,328,077	\$ 20,448,139
General welfare assistance, employment and support services	149,566,914	155,112,972	146,112,739	9,000,233
Child welfare and adult community care services	103,069,321	102,539,348	97,193,036	5,346,312
Youth prevention, delinquency and correction services	20,628,652	20,183,153	18,295,972	1,887,181
General administration	9,070,167	9,026,189	9,025,797	392
Vocational rehabilitation and services for the blind	4,571,149	4,351,702	4,349,488	2,214
Commission on the status of women/commission on fatherhood	161,833	154,881	153,208	1,673
	<u>\$ 1,247,855,700</u>	<u>\$ 1,238,144,461</u>	<u>\$ 1,201,458,317</u>	<u>\$ 36,686,144</u>

## Department of Human Services State of Hawaii

Management Discussion and Analysis (continued)  
June 30, 2016

The differences between the original and final budget for the individual programs is mainly due to a legislative reduction of funds.

The majority of the savings for the health care programs were due to the late receipt of reimbursements. Because the reimbursements were received after the fiscal year ended, the program was not able to utilize the funds. The health care program also had a change in their certification process, resulting in a savings for fiscal year 2016. The amounts expended in comparison to the amount budgeted appears favorable.

### CAPITAL ASSETS

As of June 30, 2016 and 2015, the cost basis of capital assets, net of accumulated depreciation, used by the DHS are presented in the table below. Approximately \$37.8 million of capital assets were added in the fiscal year ended June 30, 2016. The increase in capital assets is due to the additional system upgrade for the Affordable Care Act (ACA), in the amount of \$37.0 million. Annual depreciation totaling approximately \$26.7 million decreased the net cost basis during the fiscal year ended June 30, 2016.

#### Capital Assets, Net of Depreciation

	2016	2015
Depreciable Assets:		
State office buildings and improvements	\$ 12,819,950	\$ 13,728,390
Building and improvements for the Office of Youth Services	13,055,812	13,295,867
Intangible assets - software	102,085,166	89,754,811
Total buildings and improvements	127,960,928	116,779,068
Furniture, equipment and vehicles	204,980	336,858
Non-depreciable Assets:		
Land	6	6
Total	<u>\$ 128,165,914</u>	<u>\$ 117,115,932</u>

In addition to the capital assets listed above, the DHS leases numerous office facilities from third-party lessors under operating lease arrangements. Those leases for additional space beyond the state facilities listed above as buildings and improvements are necessary to provide program services throughout the State.

## Department of Human Services State of Hawaii

Management Discussion and Analysis (continued)  
June 30, 2016

### ECONOMIC FACTORS

In state fiscal year 2016, the number of individuals in Hawaii receiving financial assistance decreased significantly, by -14%. This year's decline follows a -9.3% decrease last year.

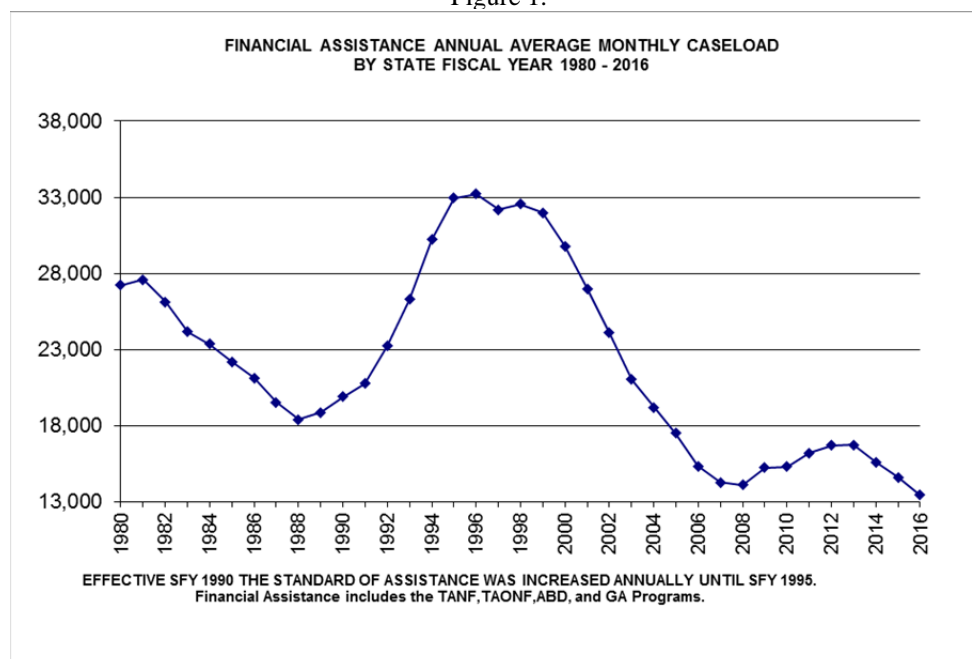
In June 2015, a total of 27,960 individuals in Hawaii were receiving financial assistance as compared to 24,015 in June 2016, a decline of 3,945 individuals.

Average monthly financial assistance caseload decreased by -7.8% from state fiscal year 2015 to 2016, from 14,588 to 13,444 respectively. This was a decrease of 1,144 cases.

Over the most recent 2016 fiscal year, the average number of individuals in Hawaii receiving Supplemental Nutrition Assistance Program (SNAP), formerly known as Food Stamp Program decreased by -6.7%. This year's decline follows a -1% decrease last year. In June 2015, a total of 191,916 individuals in Hawaii were receiving SNAP benefits as compared to 179,138 in June 2016, a decline of 12,778 individuals.

The number of individuals receiving SNAP benefits and financial assistance in Hawaii has decreased significantly over the past two fiscal years. Expectations of positive growth for Hawaii's economy suggest a continued trend downward, possibly at a slower pace than last year.

Figure 1.



## Department of Human Services State of Hawaii

Management Discussion and Analysis (continued)  
June 30, 2016

Figure 2.

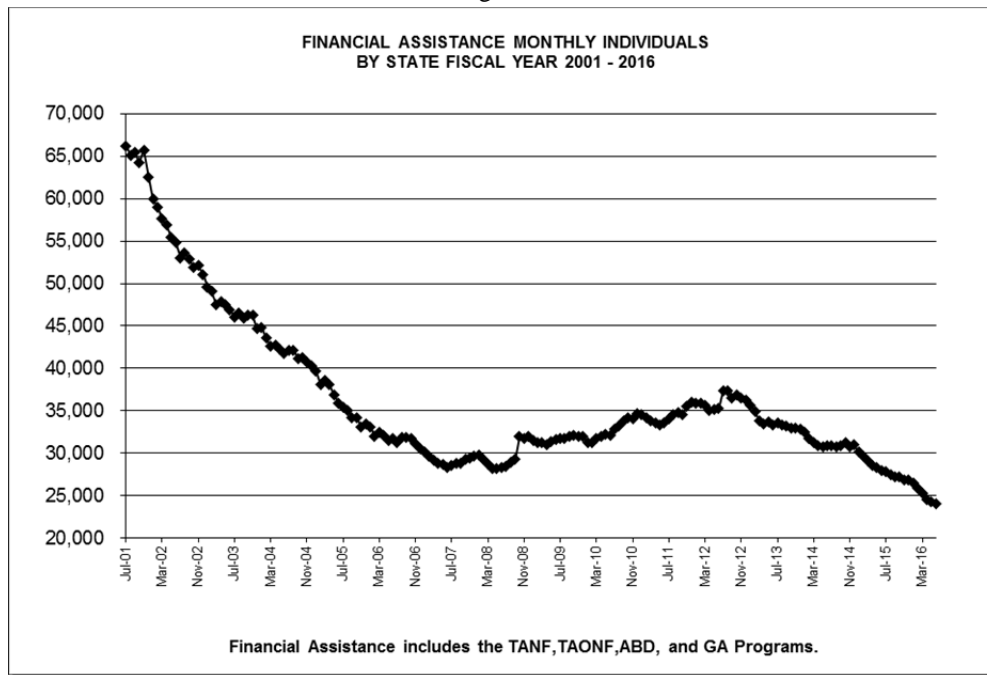
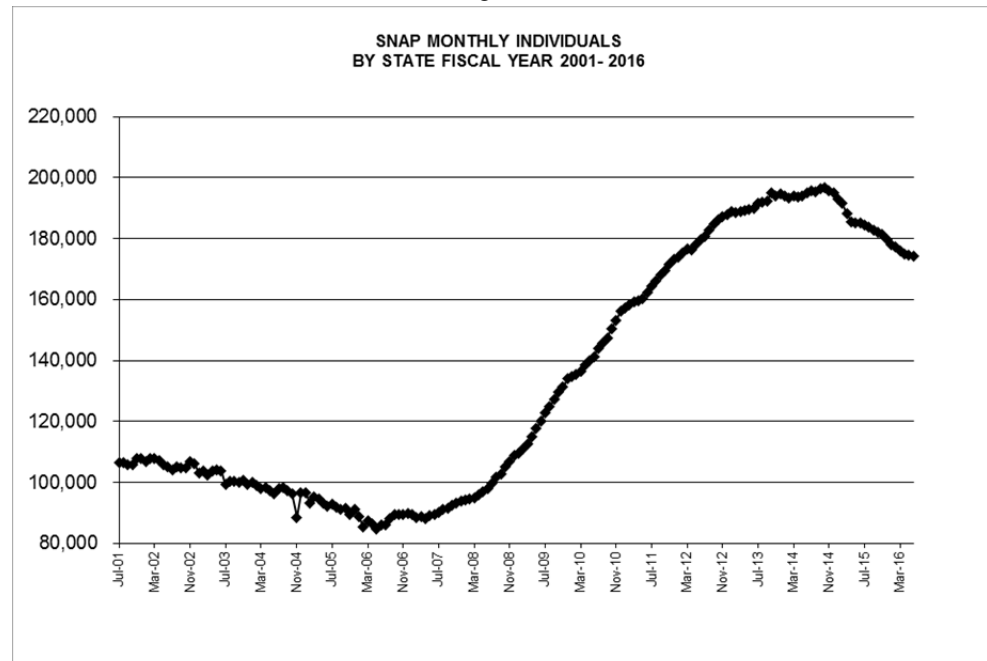


Figure 3.



**Department of Human Services**  
**State of Hawaii**

Statement of Net Position  
June 30, 2016

	<b><u>Governmental Activities</u></b>
<b><u>Assets</u></b>	
Cash and Cash Equivalents	\$ 342,466,821
Receivables, net	61,345,768
Due from Other Governments	<u>60,855,639</u>
Total current assets	464,668,228
Capital Assets, Net of Accumulated Depreciation	<u>128,165,914</u>
Total assets	<u><u>\$ 592,834,142</u></u>
<b><u>Liabilities</u></b>	
Vouchers Payable	\$ 22,329,104
Accrued Wages and Employee Benefits Payable	10,189,668
Due to State General Fund	188,657,246
Accrued Medical Assistance Payable	148,873,630
Accrued Compensated Absences	<u>5,417,000</u>
Total current liabilities	375,466,648
Accrued Compensated Absences, Less Current Portion	8,474,716
Claims and Judgments	<u>7,100,000</u>
Total liabilities	<u>391,041,364</u>
<b><u>Net Position</u></b>	
Net Investment in Capital Assets	128,165,914
Unrestricted	<u>73,626,864</u>
Total net position	<u>201,792,778</u>
Total liabilities and net position	<u><u>\$ 592,834,142</u></u>

See accompanying notes to the basic financial statements.

# Department of Human Services State of Hawaii

Statement of Activities  
For the Fiscal Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
Governmental Activities:				
Health care programs	\$ 2,547,635,739	\$ -	\$ 1,585,647,743	\$ (961,987,996)
General welfare assistance, employment and support services	717,446,488	-	607,359,045	(110,087,443)
Child welfare and adult community care services	166,694,329	-	54,007,914	(112,686,415)
Vocational rehabilitation and services for the blind	31,830,104	-	27,165,471	(4,664,633)
Youth prevention, delinquency and correction services	22,360,584	-	2,168,801	(20,191,783)
General administration	14,190,170	-	-	(14,190,170)
Commission on the status of women / commission on fatherhood	170,539	-	-	(170,539)
Total governmental activities	<u>\$ 3,500,327,953</u>	<u>\$ -</u>	<u>\$ 2,276,348,974</u>	<u>\$ (1,223,978,979)</u>
<b>General Revenues:</b>				
State allotments, net of lapsed appropriations				\$ 1,215,019,091
Nonimposed employee fringe benefits				<u>23,612,771</u>
Total general revenues				<u>1,238,631,862</u>
Transfers				<u>(319,610)</u>
Change in net position				14,333,273
Net Position at June 30, 2015				<u>187,459,505</u>
Net Position at June 30, 2016				<u>\$ 201,792,778</u>

See accompanying notes to the basic financial statements.

## Department of Human Services State of Hawaii

Balance Sheet – Governmental Funds  
June 30, 2016

	General	Med-QUEST Special Revenue Fund	Human Services Special Revenue Fund	Total
<b>ASSETS:</b>				
Cash and cash equivalents	\$ 180,686,905	\$ 70,425,975	\$ 91,353,941	\$ 342,466,821
Receivables, net	18,851,030	40,571,795	1,922,943	61,345,768
Due from other funds	183,846,845	-	-	183,846,845
Due from other governments	-	56,824,682	4,030,957	60,855,639
Total assets	<u>\$ 383,384,780</u>	<u>\$ 167,822,452</u>	<u>\$ 97,307,841</u>	<u>\$ 648,515,073</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES:</b>				
Vouchers payable	\$ 11,867,115	\$ -	\$ 10,461,989	\$ 22,329,104
Accrued wages and employee benefits payable	5,646,791	1,001,589	3,541,288	10,189,668
Due to other funds	-	103,254,996	80,591,849	183,846,845
Due to State general fund	188,657,246	-	-	188,657,246
Accrued medical assistance payable	85,307,763	63,565,867	-	148,873,630
Total liabilities	<u>291,478,915</u>	<u>167,822,452</u>	<u>94,595,126</u>	<u>553,896,493</u>
<b>FUND BALANCES:</b>				
Committed	-	-	2,712,715	2,712,715
Assigned	91,905,865	-	-	91,905,865
Total fund balances	<u>91,905,865</u>	<u>-</u>	<u>2,712,715</u>	<u>94,618,580</u>
Total liabilities and fund balances	<u>\$ 383,384,780</u>	<u>\$ 167,822,452</u>	<u>\$ 97,307,841</u>	<u>\$ 648,515,073</u>

See accompanying notes to the basic financial statements.

## Department of Human Services State of Hawaii

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position  
June 30, 2016

<b>Total Fund Balances - Governmental Funds</b>		<b>\$ 94,618,580</b>
<b>Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:</b>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		
Capital assets:		
Governmental capital assets	243,707,926	
Less accumulated depreciation and amortization	<u>(115,542,012)</u>	128,165,914
Accrued compensated absences are not due in the current period and, therefore, are not reported in the governmental funds.		(13,891,716)
Claims and judgements are not due in the current period and, therefore, are not reported in the governmental funds.		<u>(7,100,000)</u>
<b>Net Position of Governmental Activities</b>		<b><u><u>\$ 201,792,778</u></u></b>

See accompanying notes to the basic financial statements.



## Department of Human Services State of Hawaii

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds  
For the Fiscal Year Ended June 30, 2016

	General	Med-Quest Special Revenue Fund	Human Services Special Revenue Fund	Total
<b>REVENUES:</b>				
State-allotted appropriations	\$ 1,215,019,091	\$ -	\$ -	\$ 1,215,019,091
Intergovernmental	-	1,585,647,743	690,701,231	2,276,348,974
Nonimposed employee fringe benefits	23,612,771	-	-	23,612,771
	<u>1,238,631,862</u>	<u>1,585,647,743</u>	<u>690,701,231</u>	<u>3,514,980,836</u>
<b>EXPENDITURES:</b>				
Health care programs	974,109,505	1,585,647,743	-	2,559,757,248
General welfare assistance, employment and support services	109,869,135	-	607,359,049	717,228,184
Child welfare and adult community care services	104,952,590	-	54,588,657	159,541,247
Vocational rehabilitation and services for the blind	4,560,109	-	27,184,185	31,744,294
Youth prevention, delinquency and correction services	20,067,533	-	2,168,799	22,236,332
General administration	14,148,192	-	-	14,148,192
Commission on the status of women / commission on fatherhood	170,951	-	-	170,951
	<u>1,227,878,015</u>	<u>1,585,647,743</u>	<u>691,300,690</u>	<u>3,504,826,448</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	10,753,847	-	(599,459)	10,154,388
<b>OTHER FINANCING SOURCES -- TRANSFERS OUT</b>	<u>(319,610)</u>	<u>-</u>	<u>-</u>	<u>(319,610)</u>
<b>NET CHANGE IN FUND BALANCES</b>	10,434,237	-	(599,459)	9,834,778
<b>FUND BALANCES AT JULY 1, 2015</b>	<u>81,471,628</u>	<u>-</u>	<u>3,312,174</u>	<u>84,783,802</u>
<b>FUND BALANCES AT JUNE 30, 2016</b>	<u>\$ 91,905,865</u>	<u>\$ -</u>	<u>\$ 2,712,715</u>	<u>\$ 94,618,580</u>

See accompanying notes to the basic financial statements.

## Department of Human Services State of Hawaii

Reconciliation of the Statement of Revenues, Expenditures and  
Changes in Fund Balances to the Statement of Activities  
For the Fiscal Year Ended June 30, 2016

**Net Change in Fund Balances - Total Governmental Funds** \$ 9,834,778

**Amounts Reported for Governmental Activities in the Statement of  
Activities are Different Because:**

Governmental funds report capital outlays as expenditures,  
however, in the statement of activities, the cost of those assets  
are depreciated over their estimated useful lives as  
depreciation expense.

Expenditures for capital assets	37,742,216	
Add current year depreciation, amortization and other changes	<u>(26,692,234)</u>	11,049,982

Change in long-term compensated absences reported in the  
statement of activities do not require the use of current  
financial resources and, therefore, are not reported as  
expenditures in governmental funds.

548,513

Change in claims and judgements reported in the  
statement of activities do not require the use of current  
financial resources and, therefore, are not reported as  
expenditures in governmental funds.

(7,100,000)

**Change in Net Position - Governmental Activities** \$ 14,333,273

See accompanying notes to the basic financial statements.

# **Department of Human Services** **State of Hawaii**

General Fund  
Statement of Revenues and Expenditures - Budget and Actual  
For the Fiscal Year Ended June 30, 2016

	<u>Original</u>	<u>Final</u>	<u>Actual on Budgetary Basis</u>	<u>Variance Favorable (Unfavorable)</u>
<b>REVENUES --</b>				
State allotments	\$ 1,247,855,700	\$ 1,238,144,461	\$ 1,160,002,914	\$ (78,141,547)
<b>EXPENDITURES:</b>				
Health care programs	960,787,664	946,776,216	926,328,077	20,448,139
General welfare assistance, employment and support services	149,566,914	155,112,972	146,112,739	9,000,233
Child welfare and adult community care services	103,069,321	102,539,348	97,193,036	5,346,312
Youth prevention, delinquency and correction services	20,628,652	20,183,153	18,295,972	1,887,181
General administration	9,070,167	9,026,189	9,025,797	392
Vocational rehabilitation and services for the blind	4,571,149	4,351,702	4,349,488	2,214
Commission on the status of women / commission on fatherhood	161,833	154,881	153,208	1,673
	<u>1,247,855,700</u>	<u>1,238,144,461</u>	<u>1,201,458,317</u>	<u>36,686,144</u>
Deficiency of revenues under expenditures	<u>-</u>	<u>-</u>	<u>(41,455,403)</u>	<u>(41,455,403)</u>
<b>OTHER FINANCING SOURCES --</b>				
<b>TRANSFERS OUT</b>	<u>-</u>	<u>-</u>	<u>(319,610)</u>	<u>(319,610)</u>
	<u>-</u>	<u>-</u>	<u>(319,610)</u>	<u>(319,610)</u>
<b>DEFICIENCY OF REVENUES AND OTHER SOURCES UNDER EXPENDITURES</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (41,775,013)</u>	<u>\$ (41,775,013)</u>

See accompanying notes to the basic financial statements.

# **Department of Human Services** **State of Hawaii**

Special Revenue Funds

Statement of Revenues and Expenditures - Budget and Actual

For the Fiscal Year Ended June 30, 2016

	Original	Final	Actual on Budgetary Basis		Variance Favorable (Unfavorable)
			Med-QUEST Special Revenue Fund	Human Services Special Revenue Fund	
<b>REVENUES --</b>					
Intergovernmental revenues:					
Med-QUEST	\$ 1,518,281,155	\$ 1,518,281,155	\$ 1,692,979,596	\$ -	\$ 174,698,441
Human services	278,027,250	278,027,250	-	174,769,574	(103,257,676)
	<u>1,796,308,405</u>	<u>1,796,308,405</u>	<u>1,692,979,596</u>	<u>174,769,574</u>	<u>71,440,765</u>
<b>EXPENDITURES:</b>					
Health care programs	1,518,281,155	1,518,281,155	1,472,082,762	-	46,198,393
General welfare assistance, employment and support services	188,330,953	188,330,953	-	30,810,422	157,520,531
Child welfare and adult community care services	60,817,961	60,817,961	-	31,901,399	28,916,562
Vocational rehabilitation and services for the blind	23,570,285	23,570,285	-	7,209,017	16,361,268
Youth prevention, delinquency and correction services	2,572,750	2,572,750	-	-	2,572,750
General administration	2,735,301	2,735,301	-	776,170	1,959,131
	<u>1,796,308,405</u>	<u>1,796,308,405</u>	<u>1,472,082,762</u>	<u>70,697,008</u>	<u>253,528,635</u>
Excess of revenues over expenditures	<u>-</u>	<u>-</u>	<u>220,896,834</u>	<u>104,072,566</u>	<u>324,969,400</u>
<b>EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 220,896,834</u>	<u>\$ 104,072,566</u>	<u>\$ 324,969,400</u>

See accompanying notes to the basic financial statements.

**Department of Human Services  
State of Hawaii**

Fiduciary Funds  
Statement of Fiduciary Net Assets  
June 30, 2016

	<u>Agency Fund</u>	<u>Private Purpose Trust Funds</u>
<b>ASSETS --</b>		
Cash	\$ 2,209,004	\$ 373,642
Total assets	<u>\$ 2,209,004</u>	<u>\$ 373,642</u>
<b>LIABILITIES:</b>		
Due to individuals	\$ 1,083,733	\$ -
Due to others	<u>1,125,271</u>	<u>-</u>
Total liabilities	<u>\$ 2,209,004</u>	<u>-</u>
<b>NET ASSETS - HELD IN TRUST</b>		<u>\$ 373,642</u>

See accompanying notes to the basic financial statements.

**Department of Human Services  
State of Hawaii**

Fiduciary Funds  
Statement of Changes in Fiduciary Net Assets  
June 30, 2016

	<b>Private Purpose Trust Funds</b>
<b>Additions --</b>	
Donations	\$ 300,806
Total additions	<u>300,806</u>
<b>Deductions --</b>	
Other	<u>1,799</u>
Total deductions	<u>1,799</u>
<b>CHANGES IN NET ASSETS</b>	299,007
<b>NET ASSETS AT JULY 1, 2015</b>	<u>74,635</u>
<b>NET ASSETS AT JUNE 30, 2016</b>	<u><u>\$ 373,642</u></u>

See accompanying notes to the basic financial statements.

# Department of Human Services

## State of Hawaii

Notes to Financial Statements  
June 30, 2016

### 1. Financial Reporting Entity

The Hawaii State Government Reorganization Act of 1959 (Act 1, Second Special Session Laws of Hawaii 1959) created the Department of Social Services and Housing. In 1987, the name was changed to the Department of Human Services (DHS). The DHS's mission is to direct its resources toward protecting and helping those least able to care for themselves and to provide services designed toward achieving self-sufficiency for clients as quickly as possible. The DHS is committed to maintaining a high level of quality, efficiency, and effectiveness in its services.

The DHS is part of the executive branch of the State of Hawaii (State). The DHS's basic financial statements reflect only its portion of the fund type categories. The State Comptroller maintains the central accounts for all state funds and publishes financial statements for the State annually which includes the DHS's financial activities.

The accompanying basic financial statements reflect the financial position and results of operations of the following activities of the DHS:

**Health Care Programs:** The Med-QUEST Division administers the State's Medicaid program through which healthcare is provided to the low-income population. The Medicaid program is jointly financed by the State and the federal government. The Division develops and maintains working relationships with health plans, providers, federal and state authorities, community agencies, client advocacy groups, and others. Healthcare coverage is provided through either fee-for-service payments to healthcare providers or contracts with managed care health plans. The State's Children Health Insurance Program was established to expand health coverage to more children whose families may be working but do not earn enough to pay for health coverage for their children. The Division's operations are reported in the general, special revenue, and agency funds.

**General Welfare Assistance, Employment and Support Services:** The Benefit, Employment and Support Services Division provides monthly benefits to assist eligible clients with such essentials as food, clothing, shelter, emergency assistance, child care, and work support, as well as employment and training to help families attain self-sufficiency. Cash benefits are provided to individuals and families through the Temporary Assistance to Needy Families, Temporary Assistance to Other Needy Families, General Assistance, and Assistance to the Aged, Blind, and Disabled programs, as well as the Low Income Home Energy Program and Child Care Connection Hawaii. The Supplemental Nutrition Assistance Program (SNAP) – formerly

# Department of Human Services State of Hawaii

Notes to Financial Statements  
June 30, 2016

## 1. Financial Reporting Entity (continued)

known as the Food Stamp Program, helps to ensure that no one goes hungry. The First-To-Work, Employment and Training programs provide job readiness, job development, job placement, case management, and other supportive services to ensure that families on public welfare are adequately prepared to end dependency, as well as providing a variety of at-risk youth and family strengthening programs to prevent family dependence. In 2011, the state homeless programs previously administered by the Hawaii Public Housing Authority, was transferred to the Division. The Division's operations are reported in the general, special revenue, and agency funds.

**Child Welfare and Adult Community Care Services:** The Social Services Division provides social services programs to ensure the health and safety of those least able to protect themselves from abuse and neglect. The Child Welfare Services (CWS) program provides services to ensure the safety and permanency of children in their own homes or, when necessary, in out-of-home placements. The program is community-based and neighbor-focused with many partnerships and collaborations with the private and public sectors. Services are focused on empowering families and building upon family strengths. When children cannot be safely returned to their family, the CWS program proceeds with permanent placement through adoption, legal guardianship, or other substitute long-term care, including independent living. The program also licenses foster families, boarding homes, group homes, and child placing-organizations. The Adult Protective Services program provides crisis intervention, including investigation and emergency services, to dependent adults who are reported to be abused, neglected, or financially exploited by others or seriously endangered due to self-neglect. The Home and Community-Based Services program provides comprehensive home and community-based services to disabled adults and children to enable them to live in their homes or in the community as long as possible to prevent premature institutionalization. The Division's operations are reported in the general, special revenue, and agency funds.

**Vocational Rehabilitation and Services for the Blind:** The Vocational Rehabilitation and Services for the Blind Division administers programs that provide rehabilitation services to assist eligible persons with disabilities to secure employment and to lead full and independent lives. The Vocational Rehabilitation (VR) program offers vocational evaluation, planning, counseling, treatment, training, job placement, and follow-up services to persons with physical or mental disabilities to enable them to become employed. The economic benefits of the VR program include increased earnings and purchasing power, increased tax revenues, and decreased dependency on public assistance. The Services to the Blind program, called Ho'opono, enables



# Department of Human Services State of Hawaii

Notes to Financial Statements  
June 30, 2016

## 1. Financial Reporting Entity (continued)

visually impaired adults to attain maximum vocational functional independence by providing varied services including vocational, counseling, assistive technology, and social and independent living skills training. Persons with visual impairment are also assisted in establishing and operating vending facilities. The Disability Determination program determines eligibility for Social Security Disability Insurance and Supplemental Security Income benefits under the federal Social Security Program. The Division's operations are reported in the general, special revenue, and agency funds.

**Youth Prevention, Delinquency and Correction Services:** The Office of Youth Services (OYS) develops and provides a continuum of services for youth at risk to prevent delinquency and to reduce recidivism through prevention, rehabilitation, and treatment services. Youths' needs, from prevention to incarceration to aftercare, are addressed through programs such as the Youth Services Centers, the Youth Gang Response System, and Ho'okala Adolescent Diversion as alternative to incarceration through immediate intervention services; non-residential and in-community aftercare services to prevent further incarceration; and community-based residential services as an alternative to incarceration. OYS also manages and operates the Hawaii Youth Correctional Facility (HYCF) to provide safe and secure housing for the most violent and dangerous juvenile offenders. Although a core responsibility of OYS is to manage and operate HYCF, the agency places great emphasis on providing and supporting "front end" prevention, diversion, and intervention services. Incarcerated youth are provided counseling, treatment, and educational services for redirection and rehabilitation. The Division's operations are reported in the general, special revenue, and agency funds.

**General Administration:** General administration includes the five staff offices that support the DHS administration, operating divisions, and attached agencies. The Administrative Appeals Office (AAO) provides administrative due process hearings for three departmental divisions - Benefit, Employment and Support Services, Med-QUEST, and Social Services. The AAO also serves as the rules coordinator for the DHS and reviews administrative proceedings for the adoption, modification, or repeal of departmental rules. AAO is also responsible for establishing a mediation process for the DHS. The Fiscal Management Office (FMO) provides staff assistance and advisory services for the administrative functions of fiscal management and housekeeping services. FMO formulates policies and procedures and administers the DHS's central accounting, funds management, client and vendor payment, employee payroll, inventory management, contracting, purchasing, records management, office space allocation, and central mail distribution function. The Audit, Quality Control, and Research Office (AQCRO) conducts

# Department of Human Services State of Hawaii

Notes to Financial Statements  
June 30, 2016

## 1. Financial Reporting Entity (continued)

audits, research studies, and reviews of the DHS's internal control systems and financial operations to safeguard the DHS's assets. The AQCRO serves to ensure the DHS's compliance with federal laws and regulations in monitoring the use of federal funds for services and benefits to clients. The Budget, Planning, and Management Office (BPMO) conducts studies, analyses, management evaluations, and reviews of departmental programs and operations to ascertain statutory and/or regulatory compliance, appropriate budgetary levels, and achievement of stated goals and objective. Office of Information Technology (OIT) is responsible for the overall administration, planning, direction, management, development, implementation, and maintenance of all information technology and information systems processing for the DHS statewide. The Personnel Office oversees the personnel programs of the DHS, including recruitment, examination, placement, position description, classification and pricing analysis, labor relations, civil rights, employee safety and relations, employee training and development, personnel transactions, and maintenance of personnel records. Those operations are reported in the general and special revenue funds.

**Commission on the Status of Women:** The Commission works for equality for women and girls in the State by acting as a catalyst for positive change through advocacy, education, collaboration, and program development. The Commission acts as a central clearinghouse and coordinating body for governmental and nongovernmental activities and information relating to the status of women and creates public awareness and understanding of the responsibilities, needs, potential, and contributions of women and their roles in a changing society. The Commission's operations are reported in the general and special revenue funds.

**Commission on Fatherhood:** The Commission promotes healthy relationships between parents and children, emphasizing the important role fathers play in the lives of their children. The Commission promotes, fosters, encourages, and financially supports programs designed to educate and train men who are both current and future fathers in effective parenting skills, behaviors and attitudes, strategies for overcoming personal challenges, and opportunities to be productive responsible contributors to their family. The Commission's operations are reported in the special revenue fund.

The DHS has considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the DHS are such that exclusion would cause the DHS's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability.

# **Department of Human Services State of Hawaii**

Notes to Financial Statements  
June 30, 2016

## **2. Significant Accounting Policies**

The basic financial statements of the DHS have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applicable to governmental units. The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

### **a. Basis of Presentation**

The government-wide financial statements, which are the statement of net position and the statement of activities, report information of all of the non-fiduciary activities of the DHS. The effect of interfund activity has been removed from these government-wide financial statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to customers who purchase, use, or directly benefit from goods or services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. State allotments and other items properly excluded from program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than program revenues.

The financial activities are recorded in individual funds, each of which is deemed to be a separate accounting entity. The DHS uses fund accounting to report on its financial position and results of operations. Fund accounting is designed to demonstrate the legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

Separate financial statements are provided for governmental funds and fiduciary funds. However, the fiduciary funds are not included in the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

# Department of Human Services State of Hawaii

Notes to Financial Statements  
June 30, 2016

## 2. Significant Accounting Policies (continued)

### a. Basis of Presentation (continued)

The financial activities of the DHS that are reported in the accompanying fund financial statements have been classified into the following major governmental funds. In addition, a description of the DHS's fiduciary fund is as follows:

#### i. Governmental Fund Types

The DHS reports the following major governmental funds:

##### *General Fund*

The general fund is the general operating fund of the DHS. It is used to account for all financial activities except those required to be accounted for in another fund. The annual operating budget as authorized by the State Legislature provides the basic framework within which the resources and obligations of the general fund are accounted.

##### *Special Revenue Funds*

The Special Revenue Funds are used to account and report the proceeds of specific revenue sources that are legally restricted or committed to expenditure for specific purposes other than debt service or capital projects. The Special Revenue Funds are as follows:

**Med-QUEST** - accounts for the programs related to the health care programs of the State.

**Human Services** - accounts for social services programs, which include public welfare and eligibility and disability determination.

#### ii. Fiduciary Fund Type

##### *Trust and Agency Funds*

Trust and agency funds account for various assets held by the DHS in a trustee capacity or as an agent for individuals, private organizations, other governmental agencies or other funds.

# Department of Human Services

## State of Hawaii

Notes to Financial Statements  
June 30, 2016

### 2. Significant Accounting Policies (continued)

#### b. Measurement Focus and Basis of Accounting

**Government-wide Financial Statements** - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

**Governmental Funds Financial Statements** - The governmental funds financial statements are reported using the current financial resources management focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the DHS considers revenues other than federal grants and assistance awards to be available if they are collected within 60 days of the end of the current fiscal year. Revenues susceptible to accrual include federal grants and funds appropriated by the State Legislature and allotted by the Governor. Expenditures are generally recorded when the related fund liabilities are incurred.

Federal grants and assistance awards made on the basis of entitlement periods are recorded as revenue when available and entitlement occurs which is generally within 12 months of the end of the current fiscal year. All other federal reimbursement-type grants are recorded as intergovernmental receivables and revenues when the related expenditures or expenses are incurred as of fiscal year-end and funds are available.

Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Encumbrances are recorded obligations in the form of purchase orders or contracts. The State records encumbrances at the time purchase orders or contracts are awarded and executed. Encumbrances outstanding at fiscal year-end do not constitute expenditures or liabilities.

# **Department of Human Services State of Hawaii**

Notes to Financial Statements  
June 30, 2016

## **2. Significant Accounting Policies (continued)**

### **b. Measurement Focus and Basis of Accounting (continued)**

**Fiduciary Funds** - Fiduciary funds are used to account for resources held by the DHS as an agent for individuals, private organizations, other governmental agencies, and/or other funds. Fiduciary funds are custodial in nature (i.e., assets equal liabilities) and do not involve measurement of results of operations. The private purpose trust fund is used to account for donations received by the DHS which are used to benefit clients of the Ho'opono, Services for the Blind Program under the Vocational Rehabilitation and Services for the Blind division.

### **c. Use of Estimates**

The preparation of the basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

### **d. Receivables**

Receivables in the general and special revenue funds consist primarily of amounts due from Medicaid providers for a retroactive adjustment to previously made payments, welfare overpayments and drug rebates from manufacturers. The amounts reported as net receivables were established based on management's estimate of amounts collectible.

### **e. Capital Assets**

Capital assets include land and land improvements, infrastructure assets, buildings and improvements, equipment, and all other tangible and intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at their estimated fair market value at the date of donation.

## Department of Human Services State of Hawaii

Notes to Financial Statements  
June 30, 2016

### 2. Significant Accounting Policies (continued)

#### e. Capital Assets (continued)

Maintenance and repairs are charged to operations when incurred. Betterments and major improvements which significantly increase values, change capacities, or extend useful lives are capitalized. Upon sale or retirement of capital assets, the cost and the related accumulated depreciation, as applicable, are removed from the respective accounts, and any resulting gain or loss is recognized in the statement of activities. Capital assets are depreciated using the straight-line method over the useful lives below.

The State has adopted the following capitalization policy:

	Minimum Capitalization Amount	Estimated Useful Life
Land	All	Not applicable
Land improvements	\$ 100,000	15 years
Buildings and improvements	100,000	30 years
Furniture and equipment	5,000	7 years
Motor vehicles	5,000	5 years
Computer software internally generated	1,000,000	5-15 years

#### f. Compensated Absences

The DHS permits employees to accumulate earned but unused vacation and sick leave benefits. There is no liability for unpaid accumulated sick leave since sick leave is not convertible to pay upon termination of employment. All vacation pay is accrued when incurred. Employees are credited with vacation at the rate of 168 hours per calendar year. Accumulation of such vacation credits is limited to 720 hours at calendar year-end and is convertible to pay upon termination of employment. Such accumulated vacation has been accrued and reflected in the statement of net assets.

# Department of Human Services

## State of Hawaii

Notes to Financial Statements  
June 30, 2016

### 2. Significant Accounting Policies (continued)

#### g. Due to Individuals

Due to individuals represents assets held by the DHS primarily in an agent capacity and is available to individuals receiving benefits under various programs primarily through the Electronic Benefits Transfer System.

#### h. Appropriations

Appropriations represent the authorizations granted by the State Legislature that permit a state agency, within established fiscal and budgetary controls, to incur obligations and to make expenditures. Appropriations are allotted quarterly. The allotted appropriations lapse if not expended by or encumbered at the end of the fiscal year.

#### i. Operating Grants and Contributions

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

#### j. Intrafund and Interfund Transactions

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

#### k. Fund Balance

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

The DHS reports the following classifications:

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

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



# Department of Human Services State of Hawaii

Notes to Financial Statements  
June 30, 2016

## 2. Significant Accounting Policies (continued)

### k. Fund Balance (continued)

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

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

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

### l. Net Position

Net position is restricted when constraints placed on them are either externally imposed or imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net position. When both restricted and unrestricted resources are available for use, it is generally the DHS's policy to use restricted resources first, then unrestricted resources as they are needed.

### m. Risk Management

The DHS is exposed to various risks for losses related to torts; theft of, damage to, or destruction of assets; errors or omissions; natural disasters; and injuries to employees. A liability for a claim for a risk of loss is established if information indicates that it is probable that a liability has been incurred at the date of the basic financial statements and the amount of the loss is reasonably estimable.

# Department of Human Services

## State of Hawaii

Notes to Financial Statements  
June 30, 2016

### 2. Significant Accounting Policies (continued)

#### n. Deferred Compensation Plan

The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all state employees, permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All plan assets are held in a trust fund to protect them from claims of general creditors. The State has no responsibility for loss due to the investment or failure of investment of funds and assets in the plan, but does have the duty of due care that would be required of an ordinary prudent investor. Accordingly, the assets and liabilities of the State's deferred compensation plan are not reported in the State's or the DHS's basic financial statements.

#### o. Recent Accounting Pronouncements

In June 2015, the GASB issued Statement No. 73 (GASB 73), *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. GASB 73 applies the accounting and financial reporting established in GASB 68 to all defined benefit and defined contribution pensions that are not within the scope of GASB 68. GASB 73 will be effective for the DHS's financial statements for the year ending June 30, 2017. The DHS has not yet determined the effect this statement will have on its financial statements.

In June 2015, the GASB issued Statement No. 75 (GASB 75), *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. GASB 75 amends the accounting guidance related to employers' accounting for postemployment benefits other than pension (other postemployment benefits or OPEB) administered through trusts that meet specified criteria. GASB 75 establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenditures related to OPEB. Note disclosures and required supplementary information are addressed by the statement. GASB 75 will be effective for the DHS's financial statements for the year ending June 30, 2018. The DHS has not yet determined the effect this statement will have on its financial statements.

# Department of Human Services

## State of Hawaii

Notes to Financial Statements  
June 30, 2016

### 2. Significant Accounting Policies (continued)

#### **o. Recent Accounting Pronouncements (continued)**

In June 2015, the GASB issued Statement No. 76 (GASB 76), *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. GASB 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. GASB 76 will be effective for the DHS's financial statements for the year ended June 30, 2016. The DHS implemented the provisions of this statement and determined there was no significant impact on the financial statements.

In March 2016, the GASB issued Statement No. 82 (GASB 82), *Pension Issues* – an amendment of GASB Statements No. 67, No. 68, and No. 73. GASB 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. GASB 82 will be effective for the Authority's financial statements for the year ending June 30, 2017, with earlier adoption permitted. The DHS has not yet determined the effect this statement will have on its financial statements.

### 3. Budgeting and Budgetary Control

Revenue estimates are provided to the State Legislature at the time of budget consideration and are revised and updated periodically during the fiscal year. Amounts reflected as budgeted revenues in the statement of revenues and expenditures - budget and actual (budgetary basis) - are those estimates as compiled by the Council on Revenues and the Director of Finance. Budgeted expenditures are derived primarily from the Appropriations Act of 2015 (Act 119, SLH 2015), and from other authorizations contained in the State Constitution, Hawaii Revised Statutes, and other specific appropriation acts in various Session Laws of Hawaii (SLH).

All expenditures of these appropriated funds are made pursuant to the appropriations in the fiscal 2015 - 2017 biennial budget. The general and special revenue funds have legally appropriated annual budgets.

## **Department of Human Services State of Hawaii**

Notes to Financial Statements  
June 30, 2016

### **3. Budgeting and Budgetary Control (continued)**

The final legally adopted budget in the accompanying statement of revenues and expenditures - budget and actual (budgetary basis) - general and special revenue funds represents the original appropriations, transfers, and other legally authorized legislative and executive changes.

The legal level of budgetary control is maintained at the appropriation line item level by department, program, and source of funds as established in the appropriations act. The Governor is authorized to transfer appropriations between programs within the same department and source of funds; however, transfers of appropriations between departments generally require legislative authorization. Records and reports reflecting the detail level of control are maintained by and are available at the State Department of Accounting and General Services. During the fiscal year ended June 30, 2016, there were no expenditures in excess of appropriations in the individual funds.

To the extent not expended or encumbered, general fund appropriations generally lapse at the end of the fiscal year for which the appropriations are made. The State Legislature specifies the lapse dates and any other contingencies which may terminate the authorizations for other appropriations.

Budgets adopted by the State Legislature for the general and special revenue funds are presented in the accompanying statement of revenues and expenditures - budget and actual (budgetary basis). The DHS's annual budget is prepared on the cash basis of accounting except for the encumbrance of purchase orders and contract obligations (basis difference), which is a departure from GAAP.

# **Department of Human Services** **State of Hawaii**

Notes to Financial Statements  
June 30, 2016

## **3. Budgeting and Budgetary Control (continued)**

The following schedule reconciles the budgetary amounts to the amounts presented in accordance with GAAP for the fiscal year ended June 30, 2016:

	General	Med QUEST	Human Services
Excess of revenues and other sources over expenditures - actual on a budgetary basis	\$ (41,775,013)	\$ 220,896,833	\$ 104,072,566
Current year's appropriations encumbered at fiscal year-end	169,278,755	23,073,310	9,497,600
Expenditures for liquidation of prior fiscal year encumbrances	(85,100,291)	(244,654,692)	(103,695,352)
Net changes in liabilities	(2,412,496)	(5,350,644)	2,863,329
Net change in accrued medical assistance payable	(26,919,337)	18,494,116	-
Accruals related to federal reimbursements for program expenditures	(55,016,177)	94,566,428	(39,550,251)
Net change in other receivables	(2,637,384)	59,151	575,758
Difference for revenues recognized for GAAP purposes	55,016,180	(107,084,502)	25,636,891
Net change in fund balances - GAAP basis	\$ 10,434,237	\$ -	\$ (599,459)

# **Department of Human Services**

## **State of Hawaii**

Notes to Financial Statements  
June 30, 2016

### **4. Cash and Cash Equivalents**

The State's Director of Finance is responsible for the safekeeping of all monies paid into the State Treasury. The Director of Finance pools and invests any monies of the State, which in the Director's judgment, are in excess of amounts necessary for meeting the specific requirements of the State. Investment earnings are allocated to the Primary government based on its equity interest in the pooled monies. Legally authorized investments include obligations of or guaranteed by, the U.S. government, obligations of the State, federally-insured savings and checking accounts, time certificates of deposit, and repurchase agreements with federally-insured financial institutions.

Information relating to the bank balance, insurance, and collateral of cash deposits is determined on a statewide basis and not for individual departments or divisions.

#### **a. Interest Rate Risk**

As a means of limiting its exposure to fair value losses arising from rising interest rates, the State's investment policy generally limits maturities on investments to not more than five years from the date of investment.

#### **b. Credit Risk**

The State's investment policy limits investments in state and U.S. Treasury securities, time certificates of deposit, U.S. government or agency obligations, repurchase agreements, commercial paper, bankers' acceptances, and money market funds maintaining a Triple-A rating.

#### **c. Custodial Credit Risk**

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the State will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The State's investments are held at broker/dealer firms which are protected by the Securities Investor Protection Corporation (SIPC) up to a maximum amount. In addition, excess-SIPC coverage is provided by the firms' insurance policies. The State also requires the institutions to set aside in safekeeping, certain types of securities to collateralize repurchase agreements. The State monitors the market value of these securities and obtains additional collateral when appropriate.

# **Department of Human Services State of Hawaii**

Notes to Financial Statements  
June 30, 2016

## **4. Cash and Cash Equivalents (continued)**

### **d. Concentration of Credit Risk**

The State's policy provides guidelines for portfolio diversification by placing limits on the amount the State may invest in any one issuer, types of investment instruments, and position limits per issue of an investment instrument.

### **e. Cash in Bank**

The DHS maintains cash in banks which are held separately from cash in the State Treasury. Deposit accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000 per account holder. As of June 30, 2016, the carrying amount of total bank deposits was approximately \$700,000 and the corresponding bank balances which are represented was approximately \$800,000. As of June 30, 2016 total bank deposits of approximately \$360,000 are subject to credit risk.

## **5. Receivables**

Receivables of the DHS, net of an allowance for doubtful accounts, consisted of the following at June 30, 2016:

	General	Med-QUEST	Human Services
Welfare benefit overpayments	\$ 23,682,521	\$ 2,199,777	\$ 25,218,309
Drug rebate receivable	-	39,676,086	-
Medicaid providers receivable	9,800,000	-	-
Medicaid assistance receivable	8,215,419	712,730	-
Social Security interim assistance loans	863,906	-	-
CSEA receivable	50,626	-	-
	<u>42,612,472</u>	<u>42,588,593</u>	<u>25,218,309</u>
Less allowance for doubtful accounts:			
Welfare benefit overpayments	21,861,442	2,016,798	23,295,366
Medicaid providers receivable	<u>1,900,000</u>	<u>-</u>	<u>-</u>
	<u>23,761,442</u>	<u>2,016,798</u>	<u>23,295,366</u>
Receivables, net	<u>\$ 18,851,030</u>	<u>\$ 40,571,795</u>	<u>\$ 1,922,943</u>

# **Department of Human Services** **State of Hawaii**

Notes to Financial Statements  
June 30, 2016

## **6. Interfund Receivable and Payable**

The general fund had a net receivable due from the special revenue funds totaling \$183,846,845 as of June 30, 2016, for federal reimbursements of program expenditures. The Med-QUEST and Human Services special revenue funds had a payable to the general fund totaling \$103,254,996 and \$80,591,849, respectively, as of June 30, 2016, for federal reimbursements of program expenditures.

## **7. Capital Assets**

	<b>Balance</b> <b>July 1, 2015</b>	<b>Additions</b>	<b>Disposals</b>	<b>Other</b>	<b>Balance</b> <b>June 30, 2016</b>
Depreciable Assets:					
Building and improvements	\$ 55,921,661	\$ 701,496	\$ -	\$ -	\$ 56,623,157
Furniture and equipment	34,394,338	21,754	(204,092)	-	34,212,000
Motor vehicles	1,715,903	37,945	(110,519)	-	1,643,329
Intangible assets – software	114,202,603	37,026,831	-	-	151,229,434
Non-Depreciable Assets--					
Land	<u>6</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6</u>
Total at historical cost	<u>206,234,511</u>	<u>37,788,026</u>	<u>(314,611)</u>	<u>-</u>	<u>243,707,926</u>
Less Accumulated Depreciation/					
Amortization:					
Building and improvements	28,897,404	1,849,991	-	-	30,747,395
Furniture and equipment	34,057,480	126,592	(158,282)	(18,770)	34,007,020
Motor vehicles	1,715,903	37,945	(110,519)	-	1,643,329
Intangible assets - software	<u>24,447,792</u>	<u>24,696,476</u>	<u>-</u>	<u>-</u>	<u>49,144,268</u>
Total accumulated depreciation/ amortization	<u>89,118,579</u>	<u>26,711,004</u>	<u>(268,801)</u>	<u>(18,770)</u>	<u>115,542,012</u>
Capital Assets, net	<u>\$ 117,115,932</u>	<u>\$ 11,077,022</u>	<u>\$ (45,810)</u>	<u>\$ 18,770</u>	<u>\$ 128,165,914</u>



## Department of Human Services State of Hawaii

Notes to Financial Statements  
June 30, 2016

### 7. Capital Assets (continued)

Depreciation expense for the fiscal year ended June 30, 2016 was charged to functions/programs of the DHS as follows:

	Governmental Activities
Health care programs	\$ 24,898,236
General welfare assistance, employment and support services	563,292
Child welfare and adult community care services	182,425
Vocational rehabilitation and services for the blind	48,587
Youth prevention, delinquency and correction services	911,959
General administration	106,505
	<u>\$ 26,711,004</u>

### 8. Accrued Compensated Absences

The long-term liability of the DHS for governmental activities consisted of accrued compensated absences. The change in the long-term liability during the fiscal year ended June 30, 2016, was as follows:

	Amount
Balance at July 1, 2015	\$ 14,440,229
Additions	7,406,132
Reductions	<u>(7,954,645)</u>
Balance at June 30, 2016	13,891,716
Less current portion	<u>(5,417,000)</u>
	<u>\$ 8,474,716</u>

## Department of Human Services State of Hawaii

Notes to Financial Statements  
June 30, 2016

### 9. Fund Balance

Fund balance constraints by purpose as of June 30, 2016 were as follows:

	General	Med-QUEST Special Revenue Fund	Human Services Special Revenue Fund	Total
Restricted:				
Child welfare and adult community care	\$ -	\$ -	\$ -	\$ -
General welfare assistance, employment and support services	-	-	-	-
Youth prevention, delinquency and correction	-	-	-	-
Total – restricted	-	-	-	-
Committed:				
Commission on the status of women / commission on fatherhood	-	-	3,363	3,363
Child welfare and adult community care	-	-	1,385,719	1,385,719
Vocation rehabilitation	-	-	1,323,633	1,323,633
Total – committed	-	-	2,712,715	2,712,715
Assigned:				
Human services	91,905,865	-	-	91,905,865
Total – assigned	91,905,865	-	-	91,905,865
Total fund balances	\$ 91,905,865	\$ -	\$ 2,712,715	\$ 94,618,580

# **Department of Human Services** **State of Hawaii**

Notes to Financial Statements  
June 30, 2016

## **10. Changes in Assets and Liabilities of the Agency Funds**

The agency funds are purely custodial (assets equal liabilities) and thus do not involve the measurement of results of operations. The changes in assets and liabilities of the agency funds for the fiscal year ended June 30, 2016, were as follows:

	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016
Assets --				
Cash	<u>\$ 2,184,508</u>	<u>\$ 101,729,499</u>	<u>\$ 101,705,003</u>	<u>\$ 2,209,004</u>
Liabilities --				
Due to individuals and others	<u>\$ 2,184,508</u>	<u>\$ 101,729,499</u>	<u>\$ 101,705,003</u>	<u>\$ 2,209,004</u>

## **11. Non-Imposed Employee Fringe Benefits**

Payroll fringe benefit costs of the DHS's employees that are funded by state appropriations (general fund) are assumed by the State and are not charged to the DHS's operating funds. These costs, totaling approximately \$23,613,000 for the fiscal year ended June 30, 2016, have been reported as revenues and expenditures in the general fund of the DHS.

Payroll fringe benefit costs related to federally-funded salaries are not assumed by the State and are recorded as expenditures in the special revenue funds of the DHS.

## **12. Leases**

The DHS leases office facilities under various operating leases expiring through 2025. Certain leases include renewal and escalation clauses. The DHS's general fund share of lease costs is paid from the State General Fund. The federal share of these lease costs allocable to programs is reported in the special revenue fund of the DHS. The following is a schedule of the approximate

## Department of Human Services State of Hawaii

Notes to Financial Statements  
June 30, 2016

### 12. Leases (continued)

federal share of minimum future lease commitments for non-cancelable operating leases as of June 30, 2016:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2017	\$ 1,075,000
2018	954,000
2019	856,000
2020	752,000
2021	573,000
2022 - 2025	<u>602,000</u>
	<u>\$ 4,812,000</u>

The DHS's federal share of rent expenditures for operating leases for the fiscal year ended June 30, 2016, amounted to approximately \$1,445,000, and is included in the accompanying financial statements.

### 13. Retirement Benefits

#### *Employees' Retirement System*

All eligible employees of the DHS are required by Chapter 88, Hawaii Revised Statutes (HRS), to become members of the Employees' Retirement System of the State of Hawaii (ERS), a cost-sharing multiple-employer public employee retirement plan. The ERS provides retirement benefits as well as death and disability benefits. The ERS is governed by a Board of Trustees. All contributions, benefits, and eligibility requirements are established by HRS Chapter 88 and can be amended by legislative action. The ERS issues an annual comprehensive annual financial report that is available to the public. For more information on the State's benefit plans, refer to the State of Hawaii Comprehensive Annual Financial Report (CAFR) and the ERS CAFR. The State's CAFR can be found at the Department of Accounting and General Services' website: <http://ags.hawaii.gov/accounting/annual-financial-reports/>. The ERS CAFR can be found at the ERS website: <http://ers.ehawaii.gov/resources/financials>.

## **Department of Human Services State of Hawaii**

Notes to Financial Statements  
June 30, 2016

### **13. Retirement Benefits (continued)**

Prior to June 30, 1984, the plan consisted of only a contributory plan. In 1984, legislation was enacted to add a new noncontributory plan for members of the ERS who are also covered under Social Security. Police officers, firefighters, judges, elected officials, and persons employed in positions not covered by Social Security are precluded from the noncontributory plan. The noncontributory plan provides for reduced benefits and covers most eligible employees hired after June 30, 1984. Employees hired before that date were allowed to continue under the contributory plan or to elect the new noncontributory plan and receive a refund of employee contributions. All benefits vest after five and ten years of credited service under the contributory and noncontributory plans, respectively.

Both plans provide a monthly retirement allowance based on the employee's age, years of credited service, and average final compensation (AFC). The AFC is the average salary earned during the five highest paid years of service, including the vacation payment, if the employee became a member prior to January 1, 1971. The AFC for members hired on or after that date is based on the three highest paid years of service excluding the vacation payment.

On July 1, 2006, a new hybrid contributory plan became effective pursuant to Act 179, SLH of 2004. Members in the hybrid plan are eligible for retirement at age 62 with 5 years of credited service or age 55 and 30 years of credited service. Members receive a benefit multiplier of 2% for each year of credited service in the hybrid plan. The benefit plan options are similar to the current contributory plan. Almost 58,000 current members, all members of the noncontributory plan and certain members of the contributory plan were eligible to join the new hybrid plan. Most of the new employees hired from July 1, 2006, were required to join the hybrid plan.

Covered employees of the contributory plan who became members as of June 30, 2012 or after June 30, 2012 are required to contribute 7.8% or 9.8% of their salary, respectively. Police officers, firefighters, investigators of the departments of the County Prosecuting Attorney and the Attorney General, narcotics enforcement investigators, and public safety investigators who became members as of June 30, 2012 or after June 30, 2012 are required to contribute 12.2% or 14.2% of their salary, respectively. Covered employees of the hybrid plan who became members as of June 30, 2012 or after June 30, 2012 are required to contribute 6% or 8% of their salary, respectively. The funding method used to calculate the total employer contribution requirement is the Entry Age Normal Actuarial Cost Method. Effective July 1, 2005, employer contribution rates are a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liability.

## Department of Human Services State of Hawaii

Notes to Financial Statements  
June 30, 2016

### 13. Retirement Benefits (continued)

The actuarial valuation of the ERS does not provide pension information by department or agency. Accordingly, the State's policy on the accounting and reporting for pension benefits is to allocate a portion of the net pension liability, pension expense, and deferred inflows and outflows of resources required under GASB Statement No. 68 only 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 number of covered employees for each component unit and proprietary fund for pension benefits. As such, no such allocation of the net pension liability is reported.

Contributions are established by HRS Chapter 88 and may be amended through legislature. The employer rate is set by statute based on the recommendations of the ERS actuary resulting from an experience study conducted every five years. The DHS's general fund share of the expense for pension benefits for the fiscal years ended June 30, 2016, 2015, and 2014 was paid from the State General Fund and totaled approximately \$8,757,000, \$8,677,000, and \$9,004,000, respectively. The DHS's federal share of pension benefits expense for the fiscal years ended June 30, 2016, 2015, and 2014 was approximately \$4,945,000, \$4,329,000, and \$3,053,000, respectively. The employer contribution rate for the fiscal years ended June 30, 2016, 2015, and 2014 was 17.00%, 16.50%, and 16.00%, respectively.

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

#### *Post-Retirement Health Care and Life Insurance Benefits*

The State provides certain health care and life insurance benefits to all qualified employees. Pursuant to Act 88, SLH 2001, the State of Hawaii contributes to the Hawaii Employer-Union Health Benefits Trust Fund (EUTF), an agent multiple-employer plan that replaced the Hawaii Public Employees Health Fund effective July 1, 2003. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees and their dependents. The EUTF issues an annual financial report that is available to the public. The report may be obtained by writing to the EUTF at P.O. Box 2121, Honolulu Hawaii 96805-2121.

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

## **Department of Human Services State of Hawaii**

Notes to Financial Statements  
June 30, 2016

### **13. Retirement Benefits (continued)**

For employees hired after June 30, 1996 but before July 1, 2001, and who retire with less than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For those employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Retirees in this category can elect a family plan to cover dependents.

For employees hired on or after July 1, 2001, and who retire with less than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For those employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Only single plan coverage is provided for retirees in this category. Retirees can elect family coverage but must pay the difference.

The 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 only 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 number of covered employees for each component unit and proprietary fund.

Contributions are based on negotiated collective bargaining agreements and are limited by State statute to the actual cost of benefit coverage. The DHS's share of the expense for post-retirement health care and life insurance benefits for the fiscal years ended June 30, 2016, 2015, and 2014, was approximately \$7,548,000, \$8,031,000, and \$7,804,000, respectively.

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

# Department of Human Services

## State of Hawaii

Notes to Financial Statements  
June 30, 2016

### 14. Risk Management

The DHS is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; and workers' compensation. The State records a liability for risk financing and insurance related losses if it is determined that a loss has been incurred and the amount can be reasonably estimated. The State retains various risks and insures certain excess layers with commercial insurance companies. The excess layers insured with commercial insurance companies are consistent with the prior fiscal year. Settled claims have not exceeded the coverage provided by commercial insurance companies in any of the past three fiscal years. A summary of the State's underwriting risks is as follows:

#### *Property Insurance*

The State has an insurance policy with a variety of insurers in a variety of layers for property coverage. The deductible for coverage is 3% of loss subject to a \$1 million per occurrence minimum. This policy includes windstorm, earthquake, flood damage, terrorism, and boiler and machinery coverage. The limit of loss per occurrence is \$200 million, except for terrorism which is \$50 million per occurrence.

The State also has a crime insurance policy for various types of coverages with a limit of loss of \$10 million per occurrence with a \$500,000 deductible per occurrence, except for claims expense coverage which has a \$100,000 per occurrence and a \$1,000 deductible. Losses not covered by insurance are paid from legislative appropriations of the State's General Fund.

#### *General Liability (including torts)*

Claims under \$10,000 are handled by the risk management office of the Department of Accounting and General Services. All other claims are handled by the Department of the Attorney General. The State has personal injury and property damage liability, including automobile and public errors and omissions, insurance policy in force with a \$4 million self-insured retention per occurrence. The annual aggregate per occurrence is \$5 million and for crime loss, \$10 million with no aggregate limit.

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



## Department of Human Services State of Hawaii

Notes to Financial Statements  
June 30, 2016

### 14. Risk Management (continued)

#### *Self-Insured Risks*

The State generally self-insures its automobile no-fault and workers' compensation losses. Automobile losses are administered by third-party administrators. The State administers its workers' compensation losses. The State records a liability for risk financing and insurance related losses, including incurred but not reported, if it is determined that a loss has been incurred and the amount can be reasonably estimated.

At June 30, 2016, the State recorded an estimated loss for workers' compensation, automobile and general liability claims as long-term debt as the losses will not be liquidated with currently expendable available financial resources. The estimated losses will be paid from legislative appropriations of the State's General Fund. The DHS's portion of the State's workers' compensation expense for the fiscal year ended June 30, 2016, was approximately \$403,000.

### 15. Commitments and Contingencies

#### *Encumbrances*

Encumbrances as of June 30, 2016 were as follows:

<u>Fund</u>	<u>Amount</u>
General	\$ 173,891,445
Med-QUEST	27,503,217
Human Services	19,702,085
Total	<u>\$ 221,096,747</u>

#### *Accumulated Sick Leave*

Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limit, but may be taken only in the event of illness and is not convertible to pay upon termination of employment. However, a DHS employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the ERS. At June 30, 2016, accumulated sick leave was approximately \$40 million.

## **Department of Human Services State of Hawaii**

Notes to Financial Statements  
June 30, 2016

### **15. Commitments and Contingencies (continued)**

#### *Litigation*

From time to time, the DHS is named as a defendant in various legal proceedings. Although the DHS and its counsel are unable to express opinions as to the outcome of the litigation, it has been the State's historical practice that certain types of judgments and settlements against an agency of the State are paid from the State General Fund through an appropriation bill which is submitted annually by the Department of the Attorney General to the State Legislature.

There are instances in which claims asserted against the DHS are paid directly from funds appropriated to the DHS. As of June 30, 2016, the DHS recorded a \$7.1 million related to such claims in the statement of net position.

### **16. Related Party Transactions**

The DHS had various amounts due to the State totaling \$188,667,246 as of June 30, 2016, which included federal reimbursements for program expenditures totaling \$165,453,725, receivables totaling \$23,060,624, and cash held outside of the State Treasury totaling \$152,897.

## **SUPPLEMENTARY INFORMATION**

## Department of Human Services State of Hawaii

Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ended June 30, 2016

	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures	Amount Provided to Subrecipient
<b>U.S. Department of Health and Human Services:</b>				
<i>Other Programs</i>				
ACL Independent Living State Grants	93.369		\$ 166,776	\$ -
ACL Assistive Technology	93.464		428,787	483,338
Promoting Safe and Stable Families	93.556		1,125,533	988,719
Temporary Assistance for Needy Families	93.558		58,149,003	2,767,073
Refugee and Entrant Assistance - State				
Administered Programs	93.566		9,748	-
Low-Income Home Energy Assistance	93.568		5,239,248	-
U.S. Repatriation Program	93.579		4,806	-
Chaffee Education and Training Vouchers				
Program (ETV)	93.599		76,874	-
Children's Justice Grants to States	93.643		117,722	107,500
Stephanie Tubbs Jones Child Welfare				
Services Program	93.645		1,324,389	-
Foster Care - Title IV-E	93.658		17,689,998	-
Adoption Assistance	93.659		15,223,461	-
Guardianship Assistance	93.090		2,107,245	-
Social Services Block Grant	93.667		12,515,960	12,343,971
Family Violence Prevention and Services /				
Grants for Battered Women's Shelters -				
Grants to States and Indian Tribes	93.671		778,737	759,676
Chafee Foster Care Independence Program	93.674		450,236	695,862
Children's Health Insurance Program	93.767		41,695,007	-
Money Follows a Person	93.791		176,942	-
Medicaid Incentives for Prevention of				
Chronic Diseases	93.536		1,423,900	-
<i>Total Others</i>			158,704,372	18,146,139
<i>Medicaid Cluster</i>				
State Survey and Certification of Health				
Care Providers	93.777		550,704	-
Medical Assistance Program	93.778		1,485,766,814	-
<i>Total Medicaid Cluster</i>			1,486,317,518	-
<i>CCDF Cluster</i>				
Child Care and Development Block Grant	93.575		19,796,361	3,979,255
Child Care Mandatory and Matching Funds				
of the Child Care and Development Fund	93.596		10,089,577	-
<i>Total CCDF Cluster</i>			29,885,938	3,979,255
<b>Total U.S. Department of Health and Human Services</b>			<b>\$ 1,674,907,828</b>	<b>\$ 22,125,394</b>

See independent auditor's report and accompanying notes to the schedule of expenditures of federal awards.

## Department of Human Services State of Hawaii

Schedule of Expenditures of Federal Awards (continued)  
For the Fiscal Year Ended June 30, 2016

	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures	Amount Provided to Subrecipient
<b>U.S. Department of Agriculture:</b>				
<i>SNAP Cluster</i>				
Supplemental Nutrition Assistance Program	10.551		\$ 490,293,532	\$ -
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561		20,362,922	1,430,456
<i>Total SNAP Cluster</i>			510,656,454	1,430,456
<i>Child Nutrition Cluster</i>				
National School Lunch Program	10.555		40,870	-
School Breakfast Program	10.553		32,341	-
<i>Total Child Nutrition Cluster</i>			73,211	-
<b>Total U.S. Department of Agriculture</b>			510,729,665	1,430,456
<b>U.S. Department of Housing and Urban Development:</b>				
Emergency Solutions Grants Program	14.231		371,132	412,391
Housing Opportunities for Persons with AIDS	14.241		220,746	200,268
Continuum of Care Program	14.267		1,474,222	777,085
Shelter Plus Care	14.238		170,287	143,650
<b>Total U.S. Department of Housing and Urban Development</b>			2,236,387	1,533,394
<b>U.S. Department of Justice:</b>				
Juvenile Justice and Delinquency Prevention -				
Allocation to States	16.540		832,996	683,223
Juvenile Accountability Block Grant	16.523		163,918	131,551
Crime Victim Assistance	16.575		219,056	-
<b>Total U.S. Department of Justice</b>			1,215,970	814,774
<b>U.S. Department of Labor--</b>				
Pass-through State Department of Labor and Industrial Relations Senior Community Service Employment Program				
	17.235	PY14-SCSEP-CC-DHS	202,657	-
<b>Total U.S. Department of Labor</b>			\$ 202,657	\$ -

See independent auditor's report and accompanying notes to the schedule of expenditures of federal awards.

## Department of Human Services State of Hawaii

Schedule of Expenditures of Federal Awards (continued)  
For the Fiscal Year Ended June 30, 2016

	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures	Amount Provided to Subrecipient
<b>Corporation for National and Community Service --</b>				
<i>Foster Grandparent/Senior Companion Cluster</i>				
Foster Grandparent Program	94.011		\$ 456,768	\$ -
Senior Companion Program	94.016		324,789	-
<i>Total Foster Grandparent/Senior Companion Cluster</i>			<u>781,557</u>	<u>-</u>
<b>Total Corporation for National and Community Service</b>			<u>781,557</u>	<u>-</u>
<b>Social Security Administration --</b>				
Social Security - Disability Insurance	96.001		7,599,827	-
<b>Total Social Security Administration</b>			<u>7,599,827</u>	<u>-</u>
<b>U.S. Department of the Interior--</b>				
Pass-through the State Governor's Office				
Economic, Social, Political Developments of the territories	15.875	Hawaii-CI-2016-1	12,762,262	-
<b>Total U.S. Department of the Interior</b>			<u>12,762,262</u>	<u>-</u>
<b>U.S. Department of Education:</b>				
Rehabilitation Services - Vocational				
Rehabilitation Grants to States	84.126		17,371,239	-
Independent Living - State Grants	84.169		43,117	-
Rehabilitation Services - Independent Living				
Services for Older Individuals Who are Blind	84.177		197,605	-
Supported Employment Services for				
Individuals with the most Significant Disabilities	84.187		407,513	-
Assistive Technology	84.224		81,048	-
Rehabilitation Training - State Vocational Rehabilitation Unit In-Service Training	84.265		9,163	-
<b>Total U.S. Department of Education</b>			<u>18,109,685</u>	<u>-</u>
<b>TOTAL FEDERAL EXPENDITURES</b>			<u>\$ 2,228,545,838</u>	<u>\$ 25,904,018</u>

See independent auditor's report and accompanying notes to the schedule of expenditures of federal awards.

# **Department of Human Services State of Hawaii**

Notes to the Schedule of Expenditures of Federal Awards  
June 30, 2016

## **1. Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the Department of Human Services (DHS) and is presented on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

## **2. Transfers**

Grand awards totaling \$9,890,000 were transferred from CFDA 93.558 Temporary Assistance for Needy Families to CFDA 93.667 Social Services Block Grant.

## **3. Supplemental Nutrition Assistance Program**

Expenditures reported in the Schedule represent assistance utilized through the Electronic Benefits Transfer System.

## **4. Indirect Cost**

The DHS has not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

## **PART II**

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





A Hawaii Limited Liability Partnership

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

**Independent Auditor's Report**

Office of the Auditor  
State of Hawaii

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Department of Human Services of the State of Hawaii (DHS), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the DHS's basic financial statements, and have issued our report thereon dated March 21, 2017.

**Internal Control Over Financial Reporting**

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying *Schedule of Findings and Questioned Costs* as item 2016-01, to be a material weakness. A *significant deficiency* is a deficiency, or

a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the DHS'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying *Schedule of Findings and Questioned Costs* as items 2016-02 through 2016-13.

### **The DHS's Response to Findings**

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

### **Purpose of this Report**

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

KMH LLP

KMH LLP

Honolulu, Hawaii  
March 21, 2017

### **PART III**

#### **REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**



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A Hawaii Limited Liability Partnership

**Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance Required by the Uniform Guidance**

**Independent Auditor's Report**

Office of the Auditor  
State of Hawaii

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

We have audited the Department of Human Services of the State of Hawaii's (DHS) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the DHS's major federal programs for the year ended June 30, 2016. The DHS's major federal programs are identified in the summary of the auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the DHS's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the DHS's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the DHS's compliance.

**Basis for Qualified Opinion on the Major Federal Programs Identified in the Table Below**

As described in Findings 2016-02 through 2016-13 in the accompanying *Schedule of Findings and Questioned Costs*, the DHS did not comply with requirements regarding the following:

<b>Finding #</b>	<b>CFDA #</b>	<b>Program (or Cluster) Name</b>	<b>Compliance Requirement</b>
2016-02	93.778	Medical Assistance Program	Eligibility
2016-03	84.126	Vocational Rehabilitation	Eligibility
2016-04	84.126	Vocational Rehabilitation	Eligibility
2016-05	84.126	Vocational Rehabilitation	Special tests and provisions – Completion of IPEs
2016-06	93.575, 93.596	Child Care and Development Fund (CCDF) Cluster	Eligibility
2016-07	93.659	Adoption Assistance	Activities allowed & allowable cost
2016-08	93.659	Adoption Assistance	Eligibility
2016-09	15.875	Economic, Social, and Political Development of the Territories	Reporting
2016-10	93.667	Social Services Block Grant	Earmarking
2016-11	93.558	Temporary Assistance for Needy Families	Reporting
2016-12	93.558	Temporary Assistance for Needy Families	Special tests and provisions – child support non-cooperation
2016-13	93.558	Temporary Assistance for Needy Families	Special tests and provisions – Penalty for failure to comply with work verification plan

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

**Qualified Opinion on the Major Federal Programs in the Table Above**

In our opinion, except for the noncompliance described in Basis for Qualified Opinion paragraphs, the DHS complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Medicaid Cluster, Vocational Rehabilitation, CCDF Cluster, Social Services Block Grant, Adoption Assistance, Temporary Assistance for Needy Families, and Economic, Social, and Political Development of the Territories for the year ended June 30, 2016.

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

In our opinion, the DHS complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs

identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2016.

### **Other Matters**

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2016-14 through 2016-16. Our opinion on this major federal program is not modified with respect to this matter.

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

### **Report on Internal Control Over Compliance**

Management of the DHS is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the DHS's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the DHS's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2016-02 through 2016-13 and item 2016-17 to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2016-18 through 2016-20 to be a significant deficiency.

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

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

KMH LLP

KMH LLP

Honolulu, Hawaii

March 21, 2017

## **PART IV**

### **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**



## Department of Human Services State of Hawaii

Schedule of Findings and Questioned Costs  
June 30, 2016

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### Section I – Summary of Auditor’s Results

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#### *Financial Statements*

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?     Yes      ✓ No

#### *Federal Awards*

Internal control over major programs:

- Material weakness(es) identified? ✓ Yes      \_\_\_ No
- Significant deficiency(ies) identified? ✓ Yes      \_\_\_ None reported

Type of auditor’s report issued on compliance for major federal programs: Qualified for all major programs except for Supplemental Nutrition and Assistance Program (SNAP) Cluster, Low Income Home Energy Assistance, Social Security – Disability Insurance and Foster Care, which were unmodified.

Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a) ✓ Yes      \_\_\_ No

**Department of Human Services  
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)  
June 30, 2016

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

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Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.551, 10.561	SNAP Cluster
15.875	Economic, Social, and Political Development of the Territories
84.126	Vocational Rehabilitation
93.558	Temporary Assistance for Needy Families
93.568	Low Income Home Energy Assistance
93.575, 93.596	Child Care and Development Fund (CCDF) Cluster
93.658	Foster Care
93.659	Adoption Assistance
93.667	Social Services Block Grant
93.777, 93.778	Medicaid Cluster
96.001	Social Security – Disability Insurance

Dollar threshold used to distinguish between type A and type B programs: \$6,181,140

Auditee qualified as low-risk auditee? ☐ Yes ☒ No

# Department of Human Services State of Hawaii

Schedule of Findings and Questioned Costs (continued)  
June 30, 2016

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## Section II – Financial Statement Findings

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### Finding No.: 2016-01      Financial Statement Reporting

**Type of Finding:**              Material Weakness

**Criteria:** In accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, fund financial statements should be prepared using the current financial resources measurement focus and the modified accrual basis of accounting. Under this focus/basis, revenues are recognized only to the extent that they are susceptible to accrual and liabilities are required to be recorded only to the extent that their repayment will require the use of expendable available financial resources. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

**Condition:** During our audit, we proposed and management accepted several audit adjustments related to the following:

- Under accrual of medical assistance payable related to Med-Quest administration of approximately \$566,000
- Under accrual of payables to the State of approximately \$36.8 million
- Over accrual of expenditures related to intangible assets of approximately \$5 million
- Overstatement of amortization expense of intangible assets of approximately \$5 million

**Context:** During the audit, we noted that the Med-Quest Division, in the process of preparing its financial statements either over or under accrued amounts related to medical assistance payable, amounts due to the State and intangible assets.

**Cause:** We noted the adjustments were primarily caused by insufficient staffing at the Med-Quest Division, specifically, the lack of a qualified Finance Officer as well as a vacant senior accountant position. These staffing issues resulted in personnel who were unfamiliar with the financial reporting requirements being required to prepare and review the relevant financial information.

**Effect:** The under or over accrual of the amounts, resulted in the initial management prepared financial information being materially missated.

**Department of Human Services  
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)  
June 30, 2016

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**Section II – Financial Statement Findings**

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**Finding No.: 2016-01      Financial Statement Reporting (continued)**

***Recommendations:*** We recommend the Med-Quest Division revisit their staffing needs and the assignment of financial reporting responsibilities.

***Views of responsible officials:*** The Department agrees with the finding and will implement corrective action. Please refer to the corrective action plan on pages 177-221.

## Department of Human Services State of Hawaii

Schedule of Findings and Questioned Costs (continued)  
June 30, 2016

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### Section III – Federal Award Findings and Questioned Costs

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**Finding No.: 2016-02      Complete Eligibility Applications and Annual Eligibility Re-Verifications in a Timely Manner**

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

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

**Condition:** Eligibility determination for both MAGI and MAGI-excepted applications were not processed in accordance to the time standards.

**Context:** During our audit, we noted that there were approximately 50,000 initial applications received during fiscal year 2016. At the end of each month, there was an average of approximately 900 Modified Adjusted Gross Income (MAGI) applications and approximately 50 MAGI-excepted applications for which eligibility was not determined in a timely manner. Additionally, there were approximately 303,000 renewals processed during fiscal year 2016. Renewals which were submitted and not reverified within 12 months could not be determined due to the fact that the KOLEA system did not have an established report to track the historical information. A real time report was subsequently established to track this information and on December 9, 2016 there were approximately 4,200 cases whose annual re-verification was not completed within 12 months.

**Cause:** Although the Department has policies and procedures in place to ensure eligibility is determined on a timely basis, there were not enough staff to investigate pending cases.

**Effect:** There was an average of approximately 900 Modified Adjusted Gross Income (MAGI) applications and 50 MAGI-excepted applications for which eligibility was not determined in a timely manner. Also as of December 9, 2016, there were approximately 4,200 cases whose annual re-verification was not completed within 12 months.

**Department of Human Services  
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)  
June 30, 2016

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

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**Finding No.: 2016-02      Complete Eligibility Applications and Annual Eligibility Re-Verifications in a Timely Manner (continued)**

*Questioned costs:* None

*Identification of a repeat finding:* This is a repeat finding from the immediate previous audit, 2015-01.

*Recommendations:* We recommend the Department continue to assess the staffing requirements at the Eligibility Branch as well as reviewing its procedures over prioritizing applicants/participants to ensure that the backlog of applications pending eligibility determinations perform timely annual re-verifications is eliminated. We also recommend adding the renewal determination timeliness capability to the KOLEA system to enable monitoring over the process.

*Views of responsible officials:* The Department agrees with the finding and will implement corrective action. Please refer to the corrective action plan on pages 177-221.

## Department of Human Services State of Hawaii

Schedule of Findings and Questioned Costs (continued)  
June 30, 2016

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

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**Finding No.: 2016-03      Maintaining Proper Case Documentation to Support Eligibility Determinations**

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

**Criteria:** Individuals determined to be disabled as defined at Section 7(20)(A) of 29 USC 705(20)(A) are considered eligible for services. Additionally, an individual who is a beneficiary of Social Security Disability Insurance (SSDI) or a recipient of Supplemental Security Income (SSI) is presumed to be eligible for services.

**Condition:** 22 participant files were missing documents supporting their eligibility determinations.

**Context:** During our audit, we selected a non-statistical sample of 60 participant files, out of a population of 1,440 for testing and noted 22 participant files that were missing documents supporting the participants' qualifying criteria, resulting in benefit overpayments of \$31,633. Approximately \$29,000 of these benefit overpayments are also included in overpayment amounts reflected in finding 2016-05.

**Cause:** Although the Department has policies and procedures in place to ensure that the proper eligibility documents are maintained, there was a lack of diligence in complying with the policies and procedures.

**Effect:** 22 participants were determined to be eligible that were not supported by the Department's documentation.

**Questioned Costs:** \$31,633

**Identification of a repeat finding:** Not applicable

**Recommendations:** We recommend the Department be more diligent in following its existing policies and procedures to ensure compliance with the Federal requirements.

**Department of Human Services  
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)  
June 30, 2016

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

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**Finding No.: 2016-03      Maintaining Proper Case Documentation to Support Eligibility  
Determinations (continued)**

*Views of responsible officials:* The Department agrees with the finding and will implement corrective action. Please refer to the corrective action plan on pages 177-221.



## Department of Human Services State of Hawaii

Schedule of Findings and Questioned Costs (continued)  
June 30, 2016

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

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**Finding No.: 2016-04      Complete Eligibility Determinations in a Timely Manner**

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

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

**Condition:** Eligibility determinations for 17 participants were not completed in a timely manner.

**Context:** During our audit, we selected a non-statistical sample of 60 participant files, out of a population of 1,440, for testing and noted the following:

- 12 participant files where eligibility determinations were completed outside of the 60 day window, without a signed extension letter.
- 5 participant files where eligibility determinations were not completed within the 60 day window, and whose cases were ultimately closed.

**Cause:** Although the Department has policies and procedures in place to ensure that eligibility determinations are completed in a timely manner, there was a lack of diligence in complying with the policies and procedures.

**Effect:** 17 participants' eligibility was determined outside of the required timeframe.

**Questioned Costs:** None

**Identification of a repeat finding:** This is a repeat finding from the immediate previous audit, 2015-05.

**Department of Human Services  
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)  
June 30, 2016

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

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**Finding No.: 2016-04      Complete Eligibility Determinations in a Timely Manner (continued)**

***Recommendations:*** We recommend the Department be more diligent in following its existing policies and procedures to ensure compliance with the Federal requirements.

***Views of responsible officials:*** The Department agrees with the finding and will implement corrective action. Please refer to the corrective action plan on pages 177-221.

## Department of Human Services State of Hawaii

Schedule of Findings and Questioned Costs (continued)  
June 30, 2016

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

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**Finding No.: 2016-05      Complete Individualized Plan for Employment in a Timely Manner**

**Federal Agency:** U.S Department of Education  
**CFDA No.:** 84.126  
**Program:** Vocational Rehabilitation  
**Requirement:** Special Tests and Provisions – Completion of IPEs  
**Type of Finding:** Non-Compliance and Material Weakness

**Criteria:** 29 USC 722(b)(3)(F) states that the individualized plan for employment (IPE) shall be developed as soon as possible, but not later than a deadline of 90 days after the date of the determination of eligibility, unless the designated State unit and the eligible individual agree to an extension of that deadline to a specific date by which the individualized plan for employment shall be completed. Section (2)(C) requires that an individualized plan for employment shall be (i) agreed to, and signed by, such eligible individual or, as appropriate, the individual's representative; and (ii) approved and signed by a qualified vocational rehabilitation counselor employed by the designated State unit.

**Condition:** For 48 participants, IPE's were not completed within the required timeframe or were not properly approved.

**Context:** During our audit, we selected a non-statistical sample of 60 participant files, out of a population of 1,440, for testing and noted the following:

- 4 participants whose IPE was completed outside of the required 90 day period without the required extension.
- 5 participants who were determined to be eligible but did not have a completed IPE, or a case closure that was not performed within the required 90 day period, and no extension was obtained.
- 39 participant files where the IPE was not signed by the counselor, client or both parties, which resulted in an overpayment of benefits of \$57,200. Approximately \$29,000 of this amount is also reflected as benefit overpayments in finding 2016-03.

**Cause:** Although the Department has policies and procedures in place to ensure that eligibility determinations are completed in a timely manner, there was a lack of diligence in complying with the policies and procedures.

**Department of Human Services  
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)  
June 30, 2016

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

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**Finding No.: 2016-05      Complete Individualized Plan for Employment in a Timely Manner  
(continued)**

***Effect:*** Failure to complete the IPE's in a timely manner and have them properly approved resulted in non-compliance with requirement.

***Questioned Costs:*** \$57,200

***Identification of a repeat finding:*** This is a repeat finding from the immediate previous audit, 2015-08.

***Recommendations:*** We recommend the Department be more diligent in following its existing policies and procedures to ensure compliance with the Federal requirements.

***Views of responsible officials:*** The Department agrees with the finding and will implement corrective action. Please refer to the corrective action plan on pages 177-221.

## Department of Human Services State of Hawaii

Schedule of Findings and Questioned Costs (continued)  
June 30, 2016

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

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**Finding No.: 2016-06      Improve the Accuracy of Child Care Reimbursements**

**Federal Agency:** U.S. Department of Health and Human Services  
**CFDA No.:** 93.575 and 93.596  
**Program:** Child Care and Development Fund (CCDF) Cluster  
**Requirement:** Eligibility  
**Type of Finding:** Non-Compliance and Material Weakness

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

**Condition:** Eligibility determinations and the related benefits for 11 participants were not properly supported by the Department's records.

**Context:** During our audit, we selected a non-statistical sample of 60 eligibility determinations, out of a population of approximately 10,800 participants, for testing and noted exceptions in 11 participant case files as follows:

- For 8 case files, the Parent Calendar of Activities (DHS Form 928) did not agree to the Child Care Worksheet (DHS Form 920). Of the 8 case files, discrepancies in 4 of the case files did not have an impact on the benefits paid to the participant. For the remaining 4 case files, the discrepancies resulted in an overpayment and underpayment of benefits of \$384 and (\$266), respectively.
- For 2 case files, the documents supporting the applicant's income did not agree with DHS Form 920 resulting in benefit overpayments of \$43.
- 1 case file where an incorrect payment rate was utilized, resulting in the underpayment of benefits of (\$140).

**Cause:** Although the Department has policies and procedures in place to ensure the proper eligibility documents are maintained, there was a lack of diligence in complying with the policies and procedures.

**Department of Human Services  
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)  
June 30, 2016

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

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**Finding No.: 2016-06      Improve the Accuracy of Child Care Reimbursements (continued)**

***Effect:*** 7 participants received benefits that were either in excess or deficient of the amounts supported by the Department's documentation.

***Questioned Costs:*** \$427

***Identification of a repeat finding:*** This is a repeat finding from the immediate previous audit, 2015-24.

***Recommendations:*** We recommend the Department be more diligent in following its existing policies and procedures to ensure compliance with the Federal requirements.

***Views of responsible officials:*** The Department agrees with the finding and will implement corrective action. Please refer to the corrective action plan on pages 177-221.

## Department of Human Services State of Hawaii

Schedule of Findings and Questioned Costs (continued)  
June 30, 2016

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

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#### **Finding No.: 2016-07      Proper Determination of Benefit Amount**

<b>Federal Agency:</b>	U.S. Department of Health and Human Services
<b>CFDA No.:</b>	93.659
<b>Program:</b>	Adoption Assistance
<b>Requirement:</b>	Activities Allowed & Allowable Costs
<b>Type of Finding:</b>	Non -Compliance and Material Weakness

**Criteria:** 42 USC 673(a)(3) states that the amount of the payments to be made in any case under clauses (i) and (ii) of paragraph (1)(B) shall be determined through agreement between the adoptive parents and the State or local agency administering the program under this section, which shall take into consideration the circumstances of the adopting parents and the needs of the child being adopted, and may be readjusted periodically, with the concurrence of the adopting parents (which may be specified in the adoption assistance agreement), depending upon changes in such circumstances.

Program participant benefit payments are governed by a signed “Adoption Assistance Agreement” (Agreement). This Agreement outlines the terms and conditions for the participants and the Department, and includes the total amount of benefit payments. Benefit payments under the Agreement may be further supplemented due to difficulties in caring for a child as determined by a caseworker on an as needed basis and documented on the “Difficulty of Care” (DOC) worksheet. In the event of an increase or decrease to the amount of the DOC subsidy, the caseworkers are required to execute a revised Agreement.

**Condition:** Amounts paid to 10 participants were not properly supported by the Department’s records.

**Context:** During our audit, we selected a non-statistical sample of 60 participant files, out of a population of 2,860, for testing and noted the following:

- 3 instances where the DOC worksheet was missing, resulting in an overpayment of benefits of \$1,710.
- 4 instances where a supplementary DOC amount was paid but was not included in the Agreement resulting in an overpayment of benefits of \$2,280.
- 1 instance where the DOC worksheet was not signed by a caseworker or supervisor resulting in an overpayment of benefits of \$570.
- 1 instance where the amount paid was higher than the amount specified in the Agreement, resulting in an overpayment of benefits of \$225.

**Department of Human Services  
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)  
June 30, 2016

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

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**Finding No.: 2016-07      Proper Determination of Benefit Amount (continued)**

- 1 instance where the amount per the Agreement was less than the benefit payment due to a data entry error for the supplemental subsidy, resulting in an underpayment of benefits of \$145.

**Cause:** Although the Department has policies and procedures in place to ensure the proper support for the monthly adoption assistance payment is maintained, calculated, and authorized, there was a lack of diligence in complying with the policies and procedures.

**Effect:** 9 participants received benefits in excess of the amounts supported by the Department's documentation and 1 participant received benefits less than the amount supported by the Department's documentation.

**Questioned Costs:** \$4,785

**Identification of a repeat finding:** This is a repeat finding from the immediate previous audit, 2015-12.

**Recommendations:** We recommend the Department be more diligent in following its existing policies and procedures to ensure compliance with the Federal requirements.

**Views of responsible officials:** The Department agrees with the finding and will implement corrective action. Please refer to the corrective action plan on pages 177-221.



## Department of Human Services State of Hawaii

Schedule of Findings and Questioned Costs (continued)  
June 30, 2016

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

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**Finding No.: 2016-08      Maintaining Proper Case Documentation to Support Eligibility Determinations**

**Federal Agency:** U.S. Department of Health and Human Services  
**CFDA No.:** 93.659  
**Program:** Adoption Assistance  
**Requirement:** Eligibility  
**Type of Finding:** Non -Compliance and Material Weakness

**Criteria:** In order for adoptive parents to receive payments on behalf of an adopted child, the child must meet the requirements as listed according to Title 42 USC Section 673(a)(2)(A). In addition, the prospective adoptive parent(s) must satisfactorily meet a number of background checks, including a criminal records check (via State name and fingerprint) (42 USC 671(a)(20)(A)) and a child abuse and neglect registry check (42 USC 671(a)(20)(B)).

**Condition:** Amounts paid to 2 participants were not properly supported by the Department's records.

**Context:** During our audit, we selected a non-statistical sample of 11 eligibility determinations, out of 104 eligibility determinations, noting the following:

- 1 instance where the adoption decree was missing, resulting in an overpayment of benefits of \$576.
- 1 instance where documentation of the required registry checks was missing resulting in an overpayment of benefits of \$576.

**Cause:** Although the Department has policies and procedures in place to ensure the proper support for eligibility determinations are maintained, there was a lack of diligence in complying with the policies and procedures.

**Effect:** 2 participants were deemed eligible and received benefits in excess of the amounts supported by the Department's documentation.

**Questioned Costs:** \$1,152

**Identification of a repeat finding:** Not applicable

**Department of Human Services  
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)  
June 30, 2016

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

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**Finding No.: 2016-08      Maintaining Proper Case Documentation to Support Eligibility  
Determinations (continued)**

***Recommendations:*** We recommend the Department be more diligent in following its existing policies and procedures to ensure compliance with the Federal requirements.

***Views of responsible officials:*** The Department agrees with the finding and will implement corrective action. Please refer to the corrective action plan on pages 177-221.

## Department of Human Services State of Hawaii

Schedule of Findings and Questioned Costs (continued)  
June 30, 2016

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

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**Finding No.: 2016-09**

**Reporting**

**Federal Agency:** U.S. Department of the Interior  
**CFDA No.:** 15.875  
**Program:** Economic, Social, and Political Development of the Territories  
**Requirement:** Reporting  
**Type of Finding:** Non-Compliance and Material Weakness

**Criteria:** Per the Grant Terms & Conditions, a SF-425 Federal Financial Report and a narrative project status report will be submitted semi-annually for the periods beginning January 1 and ending June 30, and beginning July 1 and ending December 31. The reports are due within 30 days of the end of the period. Final reports are due 90 days after the expiration or termination of the award.

**Condition:** The Department did not submit its required reports.

**Context:** During our audit, we selected the 3 reports which were required to be filed during the year noting none of the required reports were filed within the required timeframe.

**Cause:** Program management indicated that they were aware of the reporting requirement but did not have procedures in place to address the filing of reports.

**Effect:** Failure to properly file the required reports on a timely basis resulted in non-compliance with the requirement.

**Questioned Costs:** None

**Identification of a repeat finding:** This is a repeat finding from the immediate previous audit, 2015-21.

**Recommendations:** We recommend the Department develop and implement procedures to ensure that the required federal financial reports are submitted and on a timely basis.

**Views of responsible officials:** The Department partially agrees with the finding. Please refer to the corrective action plan on pages 177-221.

**Department of Human Services  
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)  
June 30, 2016

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

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**Finding No.: 2016-09      Reporting (continued)**

*Auditor's response to views of responsible officials:* In its response, the Department indicated that some of the reports were filed but not in a timely manner. It should be noted that the reports were filed subsequent to our notification to the Department that the required reports were not filed. Our finding has not been modified with regards to the Department's response.

## Department of Human Services State of Hawaii

Schedule of Findings and Questioned Costs (continued)  
June 30, 2016

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

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#### Finding No.: 2016-10      Tracking Earmarked Funds

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

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

The Social Services Block Grant (SSBG) program receives transfers of funds from the TANF program to provide benefits to participants subject to the aforementioned income requirement. The SSBG program allocates portions of the TANF fund to its subrecipients through contracts during the budgeting process. During the year, the participants are required to self-report their income information to the subrecipients. The subrecipients compile the information pertaining to the number of TANF and non-TANF clients they serve, and for each contract, submit this information to the Department on a monthly basis, known as the “Client Eligibility List” (CEL). Quarterly, the SSBG program reviews the subrecipient’s client base to ensure that the contract funding is in compliance with the earmarking requirement. In the event of non-compliance, the SSBG program will re-allocate the TANF funds between subrecipient contracts to remain in compliance with the earmarking requirement.

**Condition:** Earmarking requirements for 3 TANF funded contracts were not met.

**Context:** During our audit, we selected a non-statistical sample of 6 contracts, out of a population of 13, for testing and noted 3 contracts that did not meet the earmarking requirements which resulted in the over-allocation of \$530,940 of TANF funds to these contracts.

**Cause:** The Department has established policies and procedures to monitor compliance with the earmarking requirement; however, program management has experienced difficulties with certain contracted entities in gathering the information necessary to demonstrate compliance with the requirements.

**Department of Human Services  
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)  
June 30, 2016

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

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**Finding No.: 2016-10      Tracking Earmarked Funds (continued)**

***Effect:*** The Department over-allocated \$530,940 of TANF funds to 3 contracts.

***Questioned Costs:*** \$530,940

***Identification of a repeat finding:*** This is a repeat finding from the immediate previous audit, 2015-11.

***Recommendations:*** We recommend that the Department provide adequate and continuous training to its contracted entities, in addition to sufficient monitoring to demonstrate compliance with the requirements.

***Views of responsible officials:*** The Department agrees with the finding and will implement corrective action. Please refer to the corrective action plan on pages 177-221.

## Department of Human Services State of Hawaii

Schedule of Findings and Questioned Costs (continued)  
June 30, 2016

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

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#### **Finding No.: 2016-11      Quarterly Reporting**

<b>Federal Agency:</b>	U.S Department of Health and Human Services
<b>CFDA No.:</b>	93.558
<b>Program:</b>	Temporary Assistance for Needy Families
<b>Requirement:</b>	Reporting
<b>Type of Finding:</b>	Non-Compliance and Material Weakness

**Criteria:** 45 CFR 265.3 requires each State to collect on a monthly basis, and file on a quarterly basis, the data specified in the Temporary Assistance for Needy Families (TANF) Data Report.

**Condition:** 3 quarterly data reports, specifically 3 case files which support the quarterly data reports were incorrectly reported.

**Context:** During our audit, we selected a non-statistical sample of 3 quarterly data reports, out of a population of 4, for testing. Each quarterly data report aggregates the information from approximately 85,000 case files. We selected a non-statistical sample of 60 case files for testing and noted the following:

- 1 quarterly report where the key report line item “TANF Family Exempt from Time\_Limits” was incorrectly reported for 1 case file.
- 2 quarterly reports where the key report line item “Work Participation Status” was incorrectly reported for 2 case files.

**Cause:** The Department indicated that the errors were due to information that was updated in its system subsequent to the period in which the report was generated.

**Effect:** Failure to properly report the correct data resulted in non-compliance with the requirement. Further, 45 CFR 265.8 allows for a potential penalty to be imposed when the Department fails to comply with the requirement.

**Questioned Costs:** None

**Identification of a repeat finding:** This is a repeat finding from the immediate previous audit, 2015-15.

**Department of Human Services  
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)  
June 30, 2016

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

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**Finding No.: 2016-11      Quarterly Reporting (continued)**

***Recommendations:*** We recommend the Department develop policies and procedures over the reporting requirement. Specifically, the Department should consider including cut-off periods to ensure information reported is complete and accurate.

***Views of responsible officials:*** The Department agrees with the finding and will implement corrective action. Please refer to the corrective action plan on pages 177-221.



## Department of Human Services State of Hawaii

Schedule of Findings and Questioned Costs (continued)  
June 30, 2016

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

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**Finding No.: 2016-12      Maintaining Proper Case Documentation to Support Compliance with  
Child Support Non-Cooperation Requirement**

**Federal Agency:** U.S Department of Health and Human Services  
**CFDA No.:** 93.558  
**Program:** Temporary Assistance for Needy Families  
**Requirement:** Special Tests and Provisions - Child Support Non-Cooperation  
**Type of Finding:** Non-Compliance and Material Weakness

**Criteria:** 45 CFR section 264.30 states the Title IV-A agency must take appropriate action, as defined, if the Title IV-D agency determines that an individual is not cooperating with the child support enforcement requirements.

**Condition:** 26 participant files were missing the proper case documentation to support compliance with the requirements.

**Context:** During our audit, we selected a non-statistical sample of 60 participant files, out of a population of 563 cases, for testing and noted the following:

- 25 participants who were missing documentation in their case file to indicate whether the Department took appropriate action regarding their non-cooperation, resulting in an overpayment of benefits of \$43,813.
- 1 participant who was improperly coded in the system as exempt from the requirements, resulting in an overpayment of benefits of \$900.

**Cause:** Although the Department has established policies and procedures in place which require the program to maintain the required documents or to ensure that appropriate benefit reduction actions are taken, there was a lack of diligence in either filing or obtaining the required documents and stopping benefit payments.

**Effect:** Failure to properly maintain the required documentation on file resulted in non-compliance with the requirements and questioned costs.

**Questioned Costs:** \$44,713

**Department of Human Services  
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)  
June 30, 2016

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

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**Finding No.: 2016-12      Maintaining Proper Case Documentation to Support Compliance with  
Child Support Non-Cooperation Requirement (continued)**

***Identification of a repeat finding:*** This is a repeat finding from the immediate previous audit, 2015-17.

***Recommendations:*** We recommend that the Department diligently perform the required procedures and maintain the appropriate documents to comply with its policies and procedures.

***Views of responsible officials:*** The Department agrees with the finding and will implement corrective action. Please refer to the corrective action plan on pages 177-221.

## Department of Human Services State of Hawaii

Schedule of Findings and Questioned Costs (continued)  
June 30, 2016

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

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**Finding No.: 2016-13      Improve the Monitoring of Required Work Participation Hours**

**Federal Agency:** U.S Department of Health and Human Services  
**CFDA No.:** 93.558  
**Program:** Temporary Assistance for Needy Families  
**Requirement:** Special Tests and Provisions - Penalty for Failure to Comply with Work Verification Plan  
**Type of Finding:** Non-Compliance and Material Weakness

**Criteria:** Each State agency must comply with its Work Verification Plan, including adequate documentation, verification, and internal control procedures. The documentation and verification of work activity is governed by 45 CFR sections 261.60 - .61. To comply with the Federal rule, the Hawaii Administrative Rules (HAR) provides guidelines by which the Department implements programs it administers. HAR 17-794.1-38, First-to-Work (FTW) Program, provides the Department with guidelines on the administration of the FTW program which administers the Work Verification Plan. HAR 17-794.1-37(k), states that if participants fail to make good and satisfactory progress, or maintain good standing, or comply with the minimum number of hours of participation without good cause, as defined, the Department shall impose a sanction in accordance with HAR 17-656.1-10.

**Condition:** 5 participant files were not compliant with the State's Work Verification Plan.

**Context:** During our audit, we selected a non-statistical sample of 60 participant files for testing out of a population of 84,508 cases and noted the following:

- 1 participants who were incorrectly categorized as exempt from the work participation requirement.
- 3 participants who were required to participate in the work participation program but had no documentation of work participation in the case file.
- 1 participant whose work participation hours in the system were calculated incorrectly, however the participant met the required number of hours.

**Cause:** Although the Department has established policies and procedures in place to ensure that accurate work activity is tracked, reported, and documented, the Department did not diligently follow existing policies and procedures.

## Department of Human Services State of Hawaii

Schedule of Findings and Questioned Costs (continued)  
June 30, 2016

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

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**Finding No.: 2016-13      Improve the Monitoring of Required Work Participation Hours  
(continued)**

**Effect:** Failure to properly track, report, and document the amount of work activity by participants resulted in noncompliance with the requirement. Further, the Department of Health and Human Services may penalize a State by an amount not less than one percent and not more than five percent of the State Family Assistance Grant for violation of 45 CFR sections 261.60-.61.

**Questioned Costs:** None

**Identification of a repeat finding:** This is a repeat finding from the immediate previous audit, 2015-18.

**Recommendations:** The Department should diligently apply the policies and procedures in place to comply with the Work Verification Plan.

**Views of responsible officials:** The Department partially agrees with the finding and will implement corrective action. Please refer to the corrective action plan on pages 177-221.

**Auditor's response to views of responsible officials:** Initially we had communicated to the Department that there were two participants that were incorrectly categorized as exempt. However, in its response, the Department indicated that only one of the participants was incorrectly categorized as exempt and that participant did not have the required documentation of work participation. Upon subsequent discussion with Department personnel and review of documents, we revised our finding accordingly. However, the modification not impact the reported finding.

## Department of Human Services State of Hawaii

Schedule of Findings and Questioned Costs (continued)  
June 30, 2016

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

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**Finding No.: 2016-14      Maintaining Proper Case Documentation to Support Eligibility Determinations**

**Federal Agency:** U.S. Department of Health and Human Services  
**CFDA No.:** 93.778  
**Program:** Medical Assistance Program  
**Requirement:** Eligibility  
**Type of Finding:** Known Questioned Costs when Likely Questioned Costs Exceed \$25,000

**Criteria:** Per 42 CFR 435.17(b), "A State plan must provide that the Medicaid agency will maintain or supervise the maintenance of the records necessary for the proper and efficient operation of the plan. The records must include individual records on each applicant and recipient that contain information on facts essential to determination of initial and continuing eligibility." For aged, blind, or disable (MAGI-excepted) individuals, verification of assets is required.

**Condition:** Asset verification for 1 participant was not properly supported by the Department's records.

**Context:** During our audit, we selected a non-statistical sample of 61 MAGI-excepted participants for testing, of which 5 were related to new applicants. We noted that 1 out of the 5 new applications did not have support for verification of assets resulting in a benefit overpayment of \$485. Total expenditures for the new applicants selected for testing were approximately \$3,950. Total benefit payments under the program related to new applicants for MAGI-excepted approximated \$22 million.

**Cause:** Although the Department has policies and procedures in place to ensure the proper eligibility documents are maintained, there was a lack of diligence in complying with the policies and procedures.

**Effect:** 1 participant received benefits in excess of the amounts supported by the Department's documentation.

**Questioned Costs:** \$485

**Identification of a repeat finding:** Not applicable

**Recommendations:** We recommend the Department be more diligent in following its existing policies and procedures to ensure compliance with the Federal requirements.

**Department of Human Services  
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)  
June 30, 2016

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

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**Finding No.: 2016-14      Maintaining Proper Case Documentation to Support Eligibility  
Determinations (continued)**

*Views of responsible officials:* The Department initially did not re-review the specific case identified to determine whether the Department agreed or disagreed with the finding. Please refer to the corrective action plan on pages 177-221.

*Auditor's response to views of responsible officials:* In its response, the Department indicated that it would need to re-review the specific case identified to determine whether or not it agrees with the finding. Upon subsequent discussion with Department personnel, it was determined that the specific case was reviewed and was determined to be in error. Our finding has not been modified with regards to the Department's response.

## Department of Human Services State of Hawaii

Schedule of Findings and Questioned Costs (continued)  
June 30, 2016

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

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**Finding No.: 2016-15      Maintaining Proper Case Documentation to Support Eligibility Determinations**

**Federal Agency:** U.S Department of Health and Human Services  
**CFDA No.:** 93.558  
**Program:** Temporary Assistance for Needy Families  
**Requirement:** Eligibility  
**Type of Finding:** Known Questioned Costs when Likely Questioned Costs Exceed \$25,000

**Criteria:** The State of Hawaii Temporary Assistance for Needy Families State Plan provides the rules and regulations for the eligibility requirements of the TANF program subject to the requirements of 45 CFR 206.10. To apply for assistance, applicants must complete and file an application form, be interviewed by a caseworker, and have certain information verified. Further, to be eligible, the applicant must meet specific financial requirements.

**Condition:** Eligibility determinations for 2 participants were not properly supported by the Department's records.

**Context:** During our audit, we selected a non-statistical sample of 60 participant files which approximated \$28,287, out of a population of 84,508 cases for testing and noted exceptions in 3 case files as follows:

- 1 case file where the identification verification code was miscoded in the system, however this did not impact the eligibility determination or benefit calculation.
- 1 case file where the benefit calculation was performed without using the current income information, resulting in a benefit overpayment of \$127.

Total benefits paid under the program approximated \$40 million.

**Cause:** Although the Department has established policies and procedures in place over the application process and the benefit calculation, there was a lack of diligence in complying with the policies and procedures.

**Effect:** Failure to follow the established policies and procedures limits the Department's ability to demonstrate compliance with the requirements, and resulted in questioned costs.

**Department of Human Services  
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)  
June 30, 2016

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

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**Finding No.: 2016-15      Maintaining Proper Case Documentation to Support Eligibility  
Determinations (continued)**

*Questioned Costs:* \$127

*Identification of a repeat finding:* This is a repeat finding from the immediate previous audit, 2015-13.

*Recommendations:* We recommend that the Department diligently comply with its policies and procedures.

*Views of responsible officials:* The Department agrees with the finding and will implement corrective action. Please refer to the corrective action plan on pages 177-221.



## Department of Human Services State of Hawaii

Schedule of Findings and Questioned Costs (continued)  
June 30, 2016

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

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**Finding No.: 2016-16**      **Eligibility Determination and Benefit Calculation**

**Federal Agency:** U.S Department of Agriculture  
**CFDA No.:** 10.551 and 10.561  
**Program:** Supplemental Nutrition and Assistance Program (SNAP) Cluster  
**Requirement:** Eligibility  
**Type of Finding:** Known Questioned Costs When Likely Questioned Costs are Greater Than \$25,000

**Criteria:** The application process for SNAP is governed by 7 CFR 273.2. To comply with the Federal rule, the Hawaii Administrative Rules (HAR) provides guidance by which the Department implements programs it administers. In accordance with HAR 17-647-32, Verification, the Department shall verify information, as defined, prior to certification for households which are initially applying for SNAP.

**Condition:** For 2 participants, inaccurate information was input into the system.

**Context:** During our audit, we selected a non-statistical sample of 60 participant files which approximated \$26,964, out of a population of 118,941, for testing and noted the following:

- 1 participant whose benefit amount was not calculated with current information, resulting in the benefit overpayment of \$52.
- 1 participant whose deduction type was miscoded in the system, however this did not result in any benefit miscalculation.

Total benefits paid under the program approximated \$490 million.

**Cause:** Although the Department has policies and procedures in place over the processing of applications and eligibility determinations, there was a lack of diligence in complying with the policies and procedures.

**Effect:** Failure to follow the established policies and procedures limits the Department's ability to demonstrate compliance with the requirements, and resulted in questioned costs.

**Questioned Costs:** \$52

**Department of Human Services  
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)  
June 30, 2016

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

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**Finding No.: 2016-16      Eligibility Determination and Benefit Calculation (continued)**

***Identification of a repeat finding:*** This is a repeat finding from the immediate previous audit, 2015-23.

***Recommendations:*** We recommend the Department be more diligent in following its existing policies and procedures to ensure compliance with the Federal requirements.

***Views of responsible officials:*** The Department agrees with the finding and will implement corrective action. Please refer to the corrective action plan on pages 177-221.

## Department of Human Services State of Hawaii

Schedule of Findings and Questioned Costs (continued)  
June 30, 2016

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

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**Finding No.: 2016-17      Maintaining Proper Case Documentation to Support Eligibility Determinations**

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

**Criteria:** 42 USC Chapter 94 Section 8624(b)(2) allows the Department to provide assistance to (a) households in which one or more individuals are receiving Temporary Assistance for Needy Families (TANF), Supplemental Security Income (SSI), Supplemental Nutrition Assistance Program (SNAP) benefits, or certain needs-tested veterans benefits; or (b) households with incomes which do not exceed the greater of 150 percent of the State's established poverty level, or 60 percent of the State median income. Further 42 USC Chapter 94 Section (d) requires the State to expend funds in accordance with the State plan under this subchapter or in accordance with revisions applicable to such a plan.

**Condition:** For 5 participant files, supporting documents used in the determination of eligibility contained errors.

**Context:** During our audit, we selected a non-statistical sample of 67 eligibility determinations, out of a population of approximately 10,000 determinations, for testing and noted exceptions in 5 participant case files as follows:

- For 4 case files, the income information used in the LIHEAP (eligibility) Determination form to calculate the eligible credit amount was incorrect. The errors did not result in questioned costs.
- For 1 case file, the applicant's information regarding public/subsidized housing information was incorrect, resulting in the underpayment of benefits in the amount of \$530.

**Cause:** Although the Department has policies and procedures in place to ensure the proper eligibility documents are maintained, there was a lack of diligence in complying with the policies and procedures.

**Effect:** 1 participant's benefit was underpaid by \$530.

**Questioned Costs:** None

**Department of Human Services  
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)  
June 30, 2016

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

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**Finding No.: 2016-17      Maintaining Proper Case Documentation to Support Eligibility  
Determinations (continued)**

***Identification of a repeat finding:*** This is a repeat finding from the immediate previous audit, 2015-19.

***Recommendations:*** We recommend the Department be more diligent in following its existing policies and procedures to ensure compliance with the Federal requirements.

***Views of responsible officials:*** The Department agrees with the finding and will implement corrective action. Please refer to the corrective action plan on pages 177-221.

## Department of Human Services State of Hawaii

Schedule of Findings and Questioned Costs (continued)  
June 30, 2016

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

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**Finding No.: 2016-18**      **Improve Controls over Utilization, Fraud and Accuracy of Medicaid Claims**

**Federal Agency:** U.S Department of Health and Human Services  
**CFDA No.:** 93.778  
**Program:** Medical Assistance Program  
**Requirement:** Special Tests and Provisions – Utilization Control and Program Integrity  
**Type of Finding:** Significant Deficiency

**Criteria:** Title 42 CFR Part 456 Subpart A requires statewide program of control of the utilization of all Medicaid services. In addition, Title 42 CFR 456.23 requires a post payment review process that allows State personnel to review recipient utilization and provider service profiles and exception criteria to identify and correct misutilization practices of recipients and providers.

**Condition:** Although the Department filled a part-time Pharmacist position effective February 4, 2016, there were no formal policies and procedures put into place regarding the Department's compliance with post-payment reviews and monitoring of Xerox, its pharmacy benefits manager (PBM).

**Context:** The development and administration of the State's Medicaid Assistance Program (MAP) is the responsibility of the Med Quest Division (MQD). The DHS information retrieval and non drug claims processing system is the Hawaii Prepaid Medical Management Information System (HPMMIS) which is operated and maintained by the Arizona Health Care Cost Containment System (AHCCCS). In addition, the management and processing of DHS's pharmacy benefits is contracted to Xerox.

Due to the complexity of the Medicaid program operations and the large volume of transactions, much reliance is placed on HPMMIS and its system of internal controls to accurately maintain enrollment and participant data and to ensure Medicaid costs are allowable, properly coded and accurately paid.

We noted the Department did not develop formal policies and procedures on the post-payment review and monitoring of Xerox, its pharmacy benefits manager (PBM). The previous report issued by an independent healthcare auditing and consulting company recommended the need to explore additional edits, analysis, and reporting in order to expand anti-fraud efforts. Although the Department has filled a part-time pharmacist position to fulfill this function, there were no formal policies and procedures in place.

**Department of Human Services  
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)  
June 30, 2016

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

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**Finding No.: 2016-18      Improve Controls over Utilization, Fraud and Accuracy of Medicaid Claims (continued)**

**Cause:** The Department did not have policies and procedures in place on the post-payment review and monitoring of Xerox, its pharmacy benefits manager (PBM).

**Questioned costs:** None

**Identification of a repeat finding:** This is a repeat finding from the immediate previous audit, 2015-03.

**Recommendations:** The Department should improve its post-payment review process by developing formal policies and procedures to conduct regular post payment reviews on a sample of drug and non-drug claims to detect processing errors and identify ways to improve the claims processing system and procedures. The Payment Error Rate Measurement conducted by Centers for Medicare and Medicaid Services is an example of a post payment review.

**Views of responsible officials:** The Department agrees with the finding and will implement corrective action. Please refer to the corrective action plan on pages 177-221.

## Department of Human Services State of Hawaii

Schedule of Findings and Questioned Costs (continued)  
June 30, 2016

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

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**Finding No.: 2016-19      Monitor the Medicaid Drug Rebate Program**

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

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

**Condition:** Although the Department filled a part-time Pharmacist position effective February 4, 2016, the Department did not put into place policies and procedures to perform monitoring of subcontractor activities.

**Context:** The Department subcontracts the daily operations of the drug rebate program to Xerox, including billing, collection, accounting, and dispute resolution. While the day to day operations of the drug rebate program have been subcontracted to Xerox, the Department is still ultimately accountable for the drug rebate program. We noted that the Department does have standard policies and procedures in place to monitor subcontractor activities.

**Cause:** Due to the complexity involved in the drug rebate calculations, the Department does not have the necessary resources and staffing requirements to perform monitoring procedures of subcontractor activities.

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

**Questioned costs:** None

**Identification of a repeat finding:** This is a repeat finding from the immediate previous audit, 2015-25.

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

**Department of Human Services  
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)  
June 30, 2016

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

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**Finding No.: 2016-19      Monitor the Medicaid Drug Rebate Program (continued)**

*Views of responsible officials:* The Department agrees with the finding and will implement corrective action. Please refer to the corrective action plan on pages 177-221.



## Department of Human Services State of Hawaii

Schedule of Findings and Questioned Costs (continued)  
June 30, 2016

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

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#### **Finding No.: 2016-20      Reporting**

<b>Federal Agency:</b>	U.S Department of Health and Human Services
<b>CFDA No.:</b>	93.667
<b>Program:</b>	Social Services Block Grant
<b>Requirement:</b>	Reporting
<b>Type of Finding:</b>	Significant Deficiency

**Criteria:** 42 USC 1397(e) requires each State to prepare reports on its activities carried out with funds made available through the Social Services Block Grant. 45 CFR 96.17 states that the State must submit each annual report (1) within six months of the end of the reporting period covered by the report; or (2) at the time the State submits its application for funding for the federal or state year, as appropriate, which begins subsequent to the expiration of that six-month period.

**Condition:** 1 report was not submitted in a timely manner.

**Context:** During our audit, we selected the 2 reports which were required to be submitted during the year noting 1 of the required reports was not submitted in a timely manner.

**Cause:** The Department has established policies and procedures to comply with the reporting requirements, there was a lack of diligence in complying with the policies and procedures.

**Effect:** Failure to follow the policies and procedures resulted in the late submission of the report.

**Questioned Costs:** None

**Identification of a repeat finding:** Not applicable

**Recommendations:** We recommend that the Department be more diligent in following its existing policies and procedures to ensure compliance with the Federal requirements.

**Views of responsible officials:** The Department agrees with the finding and will implement corrective action. Please refer to the corrective action plan on pages 177-221.

**PART V**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

# Department of Human Services State of Hawaii

Summary Schedule of Prior Audit Findings  
June 30, 2016

## STATUS REPORT

This section contains the current status of our prior audit recommendations. The recommendations are referenced to the pages of the previous audit report for the fiscal year ended June 30, 2015, dated March 11, 2016.

### Recommendations

### Status

#### Part III – Federal Award Findings and Questioned Costs Section

##### **2015-01 Complete Eligibility Applications and Annual Eligibility Re-Verifications in a Timely Manner**

**CFDA No.: 93.778  
Program: Medical Assistance Program**

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

This finding is still applicable. See finding 2016-02.

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

There were 72,982 initial applications received during fiscal year 2015. At the end of each month, there was an average of approximately 1,952 Modified Adjusted Gross Income (MAGI) applications and 172 Non-MAGI applications for which eligibility was not determined in a timely manner. As of the end of the fiscal year, the Department was able to reduce the number of outstanding applications for which eligibility was not determined in a timely manner to 778 MAGI and 24 Non-MAGI applications.

## Department of Human Services State of Hawaii

Summary Schedule of Prior Audit Findings (continued)  
June 30, 2016

### Recommendations

### Status

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

##### **2015-01 Complete Eligibility Applications and Annual Eligibility Re-Verifications in a Timely Manner (continued)**

**CFDA No.: 93.778  
Program: Medical Assistance Program**

Additionally, there were 359,788 renewals processed during fiscal year 2015. As of the end of the fiscal year, renewals which were submitted and not reverified within 12 months could not be determined due to the fact that the KOLEA system did not have an established report to track this information.

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

***Questioned costs:*** None

***Recommendations:*** We recommend the Department continue to assess the staffing requirements at the Eligibility Branch as well as reviewing its procedures over prioritizing applicants/participants to ensure that the backlog of applications pending eligibility determinations and annual re-verifications is eliminated. We also recommend adding the renewal determination timeliness capability to the KOLEA system to enable monitoring over the process.

**Department of Human Services  
State of Hawaii**

Summary Schedule of Prior Audit Findings (continued)  
June 30, 2016

Recommendations

Status

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

**2015-01 Complete Eligibility Applications and  
Annual Eligibility Re-Verifications in a  
Timely Manner (continued)**

**CFDA No.: 93.778  
Program: Medical Assistance Program**

***Corrective Action Taken or Planned:***

The Division continues to process applications and annual redeterminations in a timely manner.

KOLEA has been programmed to process and redetermine eligibility based on information provided on the returned form. If no re-verification (ER) form is returned, KOLEA automatically redetermines eligibility by the eligibility due date based on information on record in the system.

**Department of Human Services  
State of Hawaii**

Summary Schedule of Prior Audit Findings (continued)  
June 30, 2016

Recommendations

Status

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

**2015-02 Procurement, Suspension and Debarment**

**CFDA No.: 93.778**

**Program: Medical Assistance Program**

**Criteria:** In accordance with Office of Management and Budget (OMB) 2 CFR 180.300, when a non-Federal entity enters into a covered transaction with an entity at a lower tier, the non-Federal entity must verify that the entity and its principals are not suspended or debarred or otherwise excluded from participating in the transaction by checking the Excluded Parties List System (EPLS), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity.

This finding is no longer applicable.

**Condition, cause, and context:** We selected 2 out of 3 new or renewed contracts procured in the current year and noted that the Department did not verify that the 2 procured vendors were not suspended or debarred from Federal contracts. Program management asserted that they were not aware of the requirement to verify that the subrecipient was not suspended or debarred or otherwise excluded from Federal contracts. We searched the EPLS and verified that the procured vendors tested were not suspended or debarred.

**Effect:** Failure to properly verify that the contracting agency is not an excluded party could result in payments to excluded parties.

**Questioned costs:** None

**Department of Human Services  
State of Hawaii**

Summary Schedule of Prior Audit Findings (continued)  
June 30, 2016

Recommendations

Status

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

**2015-02 Procurement, Suspension and Debarment  
(continued)**

**CFDA No.: 93.778  
Program: Medical Assistance Program**

***Recommendation:*** We recommend the Department develop policies and procedures to ensure compliance with the requirement.

***Corrective Action Taken or Planned:*** The Division, through its Procurement Specialist, has already initiated the process to check the EPLS, prior to execution of contracts. In addition, the Division has also included language in our Request for Proposals regarding the requirement for verification against the EPLS.

## Department of Human Services State of Hawaii

Summary Schedule of Prior Audit Findings (continued)  
June 30, 2016

### Recommendations

### Status

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

##### **2015-03 Improve Controls over Utilization, Fraud and Accuracy of Medicaid Claims**

**CFDA No.: 93.778**  
**Program: Medical Assistance Program**

**Criteria:** Title 42 CFR Part 456 Subpart A requires statewide program of control of the utilization of all Medicaid services. In addition, Title 42 CFR 456.23 requires a post payment review process that allows State personnel to review recipient utilization and provider service profiles and exception criteria to identify and correct misutilization practices of recipients and providers.

This finding is still applicable. See finding 2016-18.

**Condition, cause and context:** The development and administration of the State's Medicaid Assistance Program (MAP) is the responsibility of the Med Quest Division (MQD). The Department information retrieval and non drug claims processing system is the Hawaii Prepaid Medical Management Information System (HPMMIS) which is operated and maintained by the Arizona Health Care Cost Containment System (AHCCCS). In addition, the management and processing of the Department's pharmacy benefits is contracted to Xerox.

Due to the complexity of the Medicaid program operations and the large volume of transactions, much reliance is placed on HPMMIS and its system of internal controls to accurately maintain enrollment and participant data and to ensure Medicaid costs are allowable, properly coded and accurately paid.



## Department of Human Services State of Hawaii

Summary Schedule of Prior Audit Findings (continued)  
June 30, 2016

### Recommendations

### Status

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

##### **2015-03 Improve Controls over Utilization, Fraud and Accuracy of Medicaid Claims (continued)**

**CFDA No.: 93.778**  
**Program: Medical Assistance Program**

We noted the Department was not compliant with the requirement due to the Department not completing a post-payment review and monitoring of Xerox, its pharmacy benefits manager (PBM) for over ten years. The previous report issued by an independent healthcare auditing and consulting company recommended the need to explore additional edits, analysis, and reporting in order to expand anti-fraud efforts. The Department has created a pharmacist position to fulfill this function, however, this position is vacant.

***Effect:*** Failure to implement a fully functioning post-payment review process resulted in non-compliance with the requirement. Further, there is a risk that the Department is failing to identify and correct misutilization practices and identify potential fraud.

***Questioned costs:*** None

***Recommendations:*** The Department should continue its effort to fill the vacant pharmacy position to conduct regular post payment reviews on a sample of drug and non-drug claims to detect processing errors and identify ways to improve the claims processing system and procedures. The Payment Error Rate Measurement conducted by Centers for Medicare and Medicaid Services is an example of a post payment review.

**Department of Human Services  
State of Hawaii**

Summary Schedule of Prior Audit Findings (continued)  
June 30, 2016

Recommendations

Status

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

**2015-03 Improve Controls over Utilization, Fraud  
and Accuracy of Medicaid Claims  
(continued)**

**CFDA No.: 93.778  
Program: Medical Assistance Program**

*Corrective Action Taken or Planned:* The pharmacist has been hired and has begun working with our fiscal agent contractor to conduct post payment reviews of claims data and reports.

## Department of Human Services State of Hawaii

Summary Schedule of Prior Audit Findings (continued)  
June 30, 2016

### Recommendations

### Status

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

##### **2015-04 Allowable Costs Under Individualized Plans for Employment**

**CFDA No.: 84.126  
Program: Vocational Rehabilitation**

**Criteria:** In accordance with 29 USC Section 723(a), vocational rehabilitation services provided under this subchapter are any services described in an individualized plan for employment developed for the individual. All services listed in the participant's individualized plan for employment are considered to be allowable activities. Section (b)(2)(C) states that an individualized plan for employment shall be (i) agreed to, and signed by, such eligible individual or, as appropriate, the individual's representative; and (ii) approved and signed by a qualified vocational rehabilitation counselor employed by the designated State unit.

This finding is no longer applicable.

The individualized plan for employment is developed with the input from the counselor and the participant, and entered into the Akamai system. Upon agreement of the individualized plan for employment, the counselor will print and both the counselor and the participant will sign in agreement. Revisions to the individualized plan for employment are done on an as needed basis, and are also agreed to and signed by the counselor and the participant.

**Condition, cause and context:** Out of 60 payments we tested, we noted 4 payments for services that were not listed in the related participant's signed individualized plan for employment resulting in the overpayment of benefits of \$11,670. We also noted 4 individualized plans for employment which were

## Department of Human Services State of Hawaii

Summary Schedule of Prior Audit Findings (continued)  
June 30, 2016

### Recommendations

### Status

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

##### **2015-04 Allowable Costs Under Individualized Plans for Employment (continued)**

**CFDA No.: 84.126  
Program: Vocational Rehabilitation**

not signed by the counselor, participant or both parties, resulting in the overpayment of benefits of \$494.

The Department's policies and procedures allow for revision to the individualized plan for employment as necessary, however, personnel handling the cases of these individuals were not diligent in obtaining revised individualized plans signed by the counselor and the participant.

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

***Questioned Costs:*** \$12,164.

***Recommendations:*** Department personnel should be more diligent in complying with the policies and procedures in place.

**Department of Human Services  
State of Hawaii**

Summary Schedule of Prior Audit Findings (continued)  
June 30, 2016

Recommendations

Status

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

**2015-04 Allowable Costs Under Individualized  
Plans for Employment (continued)**

**CFDA No.: 84.126  
Program: Vocational Rehabilitation**

***Corrective Action Taken or Planned:*** The following procedures are being implemented to ensure that the Division of Vocational Rehabilitation employees meet agency standards regarding Individualized Plan for Employment (IPE) completion:

1. An Internal Communication Form (ICF) outlining the Division's requirement for a signed plan will be issued to all Vocational Rehabilitation Specialists (VRS) at all levels in April 2016.
2. All Branch Administrators will meet with their VRS to ensure that they understand the ICF and commit to following the established and written procedures. They will be instructed to check all current cases.
3. The April 2016 and October 2016 case review results will indicate that compliance to the ICF has been achieved.

## Department of Human Services State of Hawaii

Summary Schedule of Prior Audit Findings (continued)  
June 30, 2016

### Recommendations

### Status

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

##### **2015-05 Complete Eligibility Determinations in a Timely Manner**

**CFDA No.: 84.126**  
**Program: Vocational Rehabilitation**

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

This finding is still applicable. See finding 2016-04.

**Condition, cause and context:** The Department did not always follow its policies and procedures to document a specific extension of time signed by both the counselor and applicant. Specifically, for 13 out of 60 applications tested, the Department did not obtain a signed extension letter with the applicant for eligibility determinations. We also noted a case closure made outside of the 60 day period.

To ensure compliance with the timely eligibility determination requirement, the Department provides each counselor on a monthly basis, a list of the counselor's assigned outstanding cases. The counselors are instructed to prioritize cases that are close to the 60 day eligibility deadline. The Department has stated that lack of diligence is the primary cause of these errors.

## Department of Human Services State of Hawaii

Summary Schedule of Prior Audit Findings (continued)  
June 30, 2016

### Recommendations

### Status

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

##### **2015-05 Complete Eligibility Determinations in a Timely Manner (continued)**

**CFDA No.: 84.126  
Program: Vocational Rehabilitation**

*Questioned Costs:* None

**Recommendations:** Department personnel should be more diligent in complying with the policies and procedures in place. The Department should also provide adequate supervision of its caseworkers and enforce its policies and procedures to help ensure compliance with eligibility requirements.

**Corrective Action Taken or Planned:** The following procedures are being implemented to ensure that the Division of Vocational Rehabilitation employees meet agency standards regarding Certification of Eligibility completion:

1. Check to make sure that every referral that is moved into Application Status is recorded in our tracking system, AWARE.
2. Every case in Application Status will be reviewed after 15 days, 30 days, and 45 days by the Supervisor. AWARE will be set up to provide a “to do list” for each Vocational Rehabilitation Specialist (VRS) which alerts the VRS of the upcoming due date for eligibility completion.
3. At monthly staff meetings, the VR Supervisor will review the application status for the branch/section.

## Department of Human Services State of Hawaii

Summary Schedule of Prior Audit Findings (continued)  
June 30, 2016

### Recommendations

### Status

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

##### **2015-05 Complete Eligibility Determinations in a Timely Manner (continued)**

**CFDA No.: 84.126  
Program: Vocational Rehabilitation**

4. Each VRS will be required to bring a printout of their cases in application status to each staff meeting so VRS can see where they are in relation to the Section/Branch to reach their “team” goal.
5. Supervisor will encourage feedback and sharing at the staff meeting to assist each VRS in meeting the individual and team goal.
6. Supervisor will have individual meeting with the VRS when a case is at 30 day status.
7. Once the case reaches 45 Days in Application Status, a decision will be made by the Supervisor on one of the following four (4) actions:
  - Move the case into Eligible Status
  - Move the case into Trial Work Status
  - Move the case into closed Status (provide justification)
  - Obtain 60-Day Waiver from the client (provide justification)



**Department of Human Services  
State of Hawaii**

Summary Schedule of Prior Audit Findings (continued)  
June 30, 2016

Recommendations

Status

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

**2015-05 Complete Eligibility Determinations in a  
Timely Manner (continued)**

**CFDA No.: 84.126  
Program: Vocational Rehabilitation**

8. Supervisor will ensure that decision is understood by VRS. Supervisor will ensure that VRS implements action plan.
9. Supervisor will report to Branch Administrator on a monthly basis on the status of meeting the 60-Day Eligibility Requirement. Branch Administrators will report to DVRA on a monthly basis.

## Department of Human Services State of Hawaii

Summary Schedule of Prior Audit Findings (continued)  
June 30, 2016

### Recommendations

### Status

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

##### **2015-06 Procurement, Suspension and Debarment**

**CFDA No.: 84.126**

**Program: Vocational Rehabilitation**

**Criteria:** In accordance with Office of Management and Budget (OMB) 2 CFR 180.300, when a non-Federal entity enters into a covered transaction with an entity at a lower tier, the non-Federal entity must verify that the entity and its principals are not suspended or debarred or otherwise excluded from participating in the transaction by checking the Excluded Parties List System (EPLS), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity.

This finding is no longer applicable.

**Condition, cause and context:** We selected 6 of 13 new or renewed contracts procured in the current year for testing and noted that the Department did not verify that the 6 procured vendors were not suspended or debarred from Federal contracts, prior to entering into the covered transaction. Although the Department was aware of the requirement, we noted that the policies and procedures to ensure compliance with the procurement requirement were put into place near the end of the current fiscal year. Given the timing in which the policies and procedures were established, the Department was unable to comply with the requirement for the current fiscal year. We searched the EPLS and verified that the procured vendors tested were not suspended or debarred.

**Effect:** Failure to properly verify that the contracting agency is not an excluded party could result in payments to excluded parties.

**Department of Human Services  
State of Hawaii**

Summary Schedule of Prior Audit Findings (continued)  
June 30, 2016

Recommendations

Status

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

**2015-06 Procurement, Suspension and Debarment  
(continued)**

**CFDA No.: 84.126  
Program: Vocational Rehabilitation**

*Questioned Costs:* None

*Recommendations:* We recommend the Department comply with its policies and procedures in place to ensure compliance with the requirement.

*Corrective Action Taken or Planned:* The Department will continue to comply with its Suspension and Debarment Policy to ensure compliance with the requirement. The six (6) contracts that were tested for this audit were awarded and executed in 2014, prior to the implementation of DVR's policy that took effect January 1, 2015. A Suspension and Debarment check was completed for these contracts in May 2015 as part of the annual monitoring activities.

## Department of Human Services State of Hawaii

Summary Schedule of Prior Audit Findings (continued)  
June 30, 2016

### Recommendations

### Status

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

##### **2015-07 Performance Report**

**CFDA No.: 84.126**

**Program: Vocational Rehabilitation**

**Criteria:** 34 CFR 361.40(a) requires the State plan to assure that the designated State agency will submit reports, (1) in the form and level of detail and at the time required by the Secretary regarding applicants for and eligible individuals receiving services under this part; and (2) in a manner that provides a complete count of the applicants and eligible individuals to - (i) permit the greatest possible cross-classification of data; and (ii) protect the confidentiality of the identity of each individual. (b) The designated State agency must comply with any requirements necessary to ensure the accuracy and verification of those reports.

This finding is no longer applicable.

Section 101(a)(10) of the Rehabilitation Act requires the State agency to capture a variety of demographic and other data for each individual whose service record is closed during the fiscal year. This data report is submitted to the Rehabilitation Services Administration (RSA) through the RSA-911.

**Condition, cause and context:** The RSA-911 is a data report compiled from the AWARE information system. The counselors enter client information from their client's case files into the AWARE system, and are responsible for ensuring that the client's information is updated properly.

## Department of Human Services State of Hawaii

Summary Schedule of Prior Audit Findings (continued)  
June 30, 2016

### Recommendations

### Status

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

##### **2015-07 Performance Reporting (continued)**

**CFDA No.: 84.126**

**Program: Vocational Rehabilitation**

We selected 60 items to test for the data report, and noted the following:

- 44 reported cases where a significant date (i.e. application date, eligibility or ineligibility determination date, IPE start date, etc.) on the RSA-911 data extract did not agree to the respective date recorded in the case file.
- 28 reported cases where the date of the Individualized Plan of Employment (IPE) and the start date of employment per the RSA-911 data extract did not agree to the date per the signed IPE or case closure form in the respective case file.
- 2 reported cases where the employment start date per the RSA-911 extract did not agree to the employment start date per the 'Case Closure Information Form'.
- 1 reported case where the 'Significance of Disability' per the RSA-911 data extract did not agree to the designation per the eligibility information form.
- 6 reported cases where the type of closure per the RSA-911 data extract did not agree to the type of closure indicated on the case closure form.

Based on discussions with the Department, these errors were due to a misunderstanding of the required items or data entry errors from the counselors, data conversion errors, or insufficient supporting documentation in the case file.

## Department of Human Services State of Hawaii

Summary Schedule of Prior Audit Findings (continued)  
June 30, 2016

### Recommendations

### Status

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

##### **2015-07 Performance Reporting (continued)**

**CFDA No.: 84.126**

**Program: Vocational Rehabilitation**

***Effect:*** Failure to accurately prepare the required report resulted in non-compliance with the Federal requirements.

***Questioned Costs:*** None

***Recommendations:*** The Department should be more diligent in complying with the policies and procedures in place. The Department should also provide adequate training and supervision of its counselors to ensure accuracy of the reports to comply with the Federal requirements.

***Corrective Action Taken or Planned:*** The following procedures have been implemented to ensure that the Division of Vocational Rehabilitation employees meet agency standards regarding reporting:

1. Changing AWARE parameters to ensure accuracy of the reports.
2. Revising procedures to include the changes made in AWARE.
3. Provide training and supervision of clerical and Vocational Rehabilitation Specialists (VRS) to ensure accurate inputting and changes in procedure due to changing AWARE parameters.

# **Department of Human Services State of Hawaii**

Summary Schedule of Prior Audit Findings (continued)  
June 30, 2016

## Recommendations

## Status

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

#### **2015-08 Complete Individualized Plan for Employment in a Timely Manner**

**CFDA No.: 84.126  
Program: Vocational Rehabilitation**

**Criteria:** 29 USC 722(b)(3)(F) states that the individualized plan for employment (IPE) shall be developed as soon as possible, but not later than a deadline of 90 days after the date of the determination of eligibility, unless the designated State unit and the eligible individual agree to an extension of that deadline to a specific date by which the individualized plan for employment shall be completed. Section (2)(C) requires that an individualized plan for employment shall be (i) agreed to, and signed by, such eligible individual or, as appropriate, the individual's representative; and (ii) approved and signed by a qualified vocational rehabilitation counselor employed by the designated State unit.

This finding is still applicable. See finding 2016-05.

**Condition, cause and context:** The Department did not always follow its policies and procedures over the development and completion of IPEs. We selected 60 cases for testing and noted the following:

- 18 instances where the Department did not complete, within the 90 day period, an IPE or perform a case closure without obtaining a signed extension letter with the applicant.
- 4 instances where the IPE was not signed by the counselor, client or both parties, which resulted in an overpayment of benefits of \$494 for the year.

## Department of Human Services State of Hawaii

Summary Schedule of Prior Audit Findings (continued)  
June 30, 2016

### Recommendations

### Status

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

##### **2015-08 Complete Individualized Plan for Employment in a Timely Manner (continued)**

**CFDA No.: 84.126  
Program: Vocational Rehabilitation**

***Effect:*** Failure to properly complete the IPE in a timely manner may result in the delay of services provided or unallowable costs being charged to the Federal grant.

***Questioned Costs:*** \$494

***Recommendations:*** The Department should be more diligent in complying with the policies and procedures in place in order to ensure compliance with the Federal requirements.

***Corrective Action Taken or Planned:*** The following procedures are being implemented to ensure that the Division of Vocational Rehabilitation employees meet agency standards regarding timely completion of Individualized Plan for Employment (IPE):

1. Every case that is eligible will be recorded in our tracking system, AWARE.
2. Every case in Eligible Status will be reviewed after 30 days, 45 days, and 60 days by the Supervisor. AWARE will be set up to provide a “to do list” for each Vocational Rehabilitation Specialist (VRS) which alerts the VRS of the upcoming due date for Individualized Plan for Employment (IPE) completion.



## Department of Human Services State of Hawaii

Summary Schedule of Prior Audit Findings (continued)  
June 30, 2016

### Recommendations

### Status

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

##### **2015-08 Complete Individualized Plan for Employment in a Timely Manner (continued)**

**CFDA No.: 84.126  
Program: Vocational Rehabilitation**

3. At monthly staff meetings, the VR Supervisor will review the eligibility status for the branch/section.
4. Each VRS will be required to bring a printout of their cases in eligibility status to each staff meeting so VRS can see where they are in relation to the Section/Branch to reach their “team” goal.
5. Supervisor will encourage feedback and sharing at the staff meeting to assist each VRS in meeting the individual and team goal.
6. Supervisor will have individual meeting with VRS when a case is at the 60 day Eligibility Status.
7. Once the case reaches 60 days in Eligibility Status, VRS will need to report to Supervisor their action plan for following one of the following three (3) actions:
  - Complete IPE (give date of meeting)
  - Obtain 90-Day Waiver from the client (provide justification and date of meeting)

**Department of Human Services  
State of Hawaii**

Summary Schedule of Prior Audit Findings (continued)  
June 30, 2016

Recommendations

Status

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

**2015-08 Complete Individualized Plan for  
Employment in a Timely Manner  
(continued)**

**CFDA No.: 84.126  
Program: Vocational Rehabilitation**

- Move the case into Closed Status  
(provide justification)
8. Supervisor will ensure that decision is understood by VRS. Supervisor will ensure that VRS implements action plan.
  9. Supervisor will report to Branch Administrator (BA) on a monthly basis on the status of meeting the 90-Day IPE Requirement. BA's will report to VRA on a monthly basis

## Department of Human Services State of Hawaii

Summary Schedule of Prior Audit Findings (continued)  
June 30, 2016

### Recommendations

### Status

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

##### **2015-09 Federal Funding Accountability and Transparency Act (FFATA) Reporting**

**CFDA No.: 93.575 and 93.596  
Program: Child Care and Development  
Fund (CCDF) Cluster**

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

This finding is no longer applicable.

**Condition, cause and context:** The Department indicated that they did not comply with the FFATA reporting requirements for all subawards. The Department was aware of the requirement but due to miscommunication with Fiscal Management Office (FMO) regarding the responsibilities of reporting, reports were not submitted in the required time frame. The finding was also noted in prior year finding 2014-08.

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

**Questioned costs:** None

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

**Department of Human Services  
State of Hawaii**

Summary Schedule of Prior Audit Findings (continued)  
June 30, 2016

Recommendations

Status

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

**2015-09 Federal Funding Accountability and  
Transparency Act (FFATA) Reporting  
(continued)**

**CFDA No.: 93.575 and 93.596  
Program: Child Care and Development  
Fund (CCDF) Cluster**

*Corrective Action Taken or Planned:* The Benefit, Employment, and Support Services Division (BESSD) has issued instructions to Program Offices that conduct procurements to enter the contract award via the FFATA Sub-Award Reporting System (FSRS) within 30 days of obligating the contract funding. The FSRS record entry will be printed out and filed in the contract folder for verification.

## Department of Human Services State of Hawaii

Summary Schedule of Prior Audit Findings (continued)  
June 30, 2016

### Recommendations

### Status

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

##### **2015-10 Federal Funding Accountability and Transparency Act (FFATA) Reporting**

**CFDA No.: 93.667**  
**Program: Social Services Block Grant**

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

This finding is no longer applicable.

**Condition, cause and context:** The Department indicated that they did not comply with the FFATA reporting requirements for all subawards. The Department was aware of the FFATA reporting requirements, however due to miscommunication within the members of management regarding the responsibilities of reporting, no reports were submitted.

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

**Questioned Costs:** None

**Recommendations:** We recommend the Department develop and implement procedures to ensure appropriate communication between the program and Fiscal Management Office so that the required FFATA reports are submitted timely.

## Department of Human Services State of Hawaii

Summary Schedule of Prior Audit Findings (continued)  
June 30, 2016

### Recommendations

### Status

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

##### **2015-10 Federal Funding Accountability and Transparency Act (FFATA) Reporting (continued)**

**CFDA No.: 93.667  
Program: Social Services Block Grant**

*Corrective Action Taken or Planned:* The following procedures are being implemented to ensure that the Social Services Division appropriately communicates with the Fiscal Management Office so the required FFATA reports are submitted timely:

1. Federal sub-award amounts subject to FFATA requirements (at least \$25,000) will be identified in the Purchase of Services Contracts log by the Support Services Office Administrator (SSOA) or her designee, and entered into the FFATA website each month no later than the end of the month following the month in which the obligation was made.
2. The SSOA will review FFATA to ensure that the list of sub-awards were entered into the FFATA website on timely basis.

## Department of Human Services State of Hawaii

Summary Schedule of Prior Audit Findings (continued)  
June 30, 2016

### Recommendations

### Status

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

##### **2015-11 Tracking Earmarked Funds**

**CFDA No.: 93.667**

**Program: Social Services Block Grant**

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

This finding is still applicable. See finding 2016-10.

The Social Services Block Grant (SSBG) program receives transfers of funds from the TANF program to provide benefits to participants subject to the aforementioned income requirement. The SSBG program allocates portions of the TANF fund to its subrecipients through contracts during the budgeting process. During the year, the participants are required to self-report their income information to the subrecipients. The subrecipients compile the information pertaining to the number of TANF and non-TANF clients they serve, and for each contract, submit this information to the Department on a monthly basis, known as the “Client Eligibility List” (CEL). Quarterly, the SSBG program reviews the subrecipient’s client base to ensure that the contract funding is in compliance with the earmarking requirement. In the event of non-compliance, the SSBG program will re-allocate the TANF funds between subrecipient contracts to remain in compliance with the earmarking requirement.

## Department of Human Services State of Hawaii

Summary Schedule of Prior Audit Findings (continued)  
June 30, 2016

### Recommendations

### Status

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

##### **2015-11 Tracking Earmarked Funds (continued)**

**CFDA No.: 93.667**

**Program: Social Services Block Grant**

***Condition, cause and context:*** We selected 4 out of 14 subrecipient contracts for testing, and noted that the Department had not prepared or reviewed the TANF Earmarking calculation to ensure compliance with the earmarking requirements. Subsequent to our inquiry, the Department performed the calculations, and noted 1 out of the 4 subrecipient contracts was not in compliance with the earmarking requirements, which resulted in the over-allocation of \$448,017 of TANF funds. Although the Department has policies and procedures in place to ensure compliance with the Federal requirements, the Department did not adhere to them.

***Effect:*** Failure to follow the policies and procedures resulted in non-compliance with the Federal requirements and questioned costs.

***Questioned Costs:*** \$448,017

***Recommendations:*** We recommend the Department adhere to its established policies and procedures to ensure that TANF funds are spent in accordance with the requirements.

***Corrective Action Taken or Planned:*** Email reminders regarding the Division's policies and procedures were sent out to all TANF funded contract providers and a refresher workshop was conducted by the Purchase of Services (POS) Unit.



**Department of Human Services  
State of Hawaii**

Summary Schedule of Prior Audit Findings (continued)  
June 30, 2016

Recommendations

Status

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

**2015-11 Tracking Earmarked Funds (continued)**

**CFDA No.: 93.667**

**Program: Social Services Block Grant**

POS specialists and the Management Information and Compliance Unit (MICU) are reviewing and keeping track of the required expenditure reports, client eligibility listing, and quarterly reports submitted by the providers. The Support Service Office Administrator (SSOA) reviews all the information twice a year.

## Department of Human Services State of Hawaii

Summary Schedule of Prior Audit Findings (continued)  
June 30, 2016

### Recommendations

### Status

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

##### **2015-12 Proper Determination of Benefit Amount**

**CFDA No.: 93.659**

**Program: Adoption Assistance**

***Criteria:*** 42 USC 673(a)(3) states that the amount of the payments to be made in any case under clauses (i) and (ii) of paragraph (1)(B) shall be determined through agreement between the adoptive parents and the State or local agency administering the program under this section, which shall take into consideration the circumstances of the adopting parents and the needs of the child being adopted, and may be readjusted periodically, with the concurrence of the adopting parents (which may be specified in the adoption assistance agreement), depending upon changes in such circumstances.

This finding is still applicable. See finding 2016-07.

Program participant benefit payments are governed by a signed “Adoption Assistance Agreement” (Agreement). This Agreement outlines the terms and conditions for the participants and the Department, and includes the total amount of benefit payments. Benefit payments under the Agreement may be further supplemented due to difficulties in caring for a child as determined by a caseworker on an as needed basis and documented on the “Difficulty of Care” (DOC) worksheet. In the event of an increase or decrease to the amount of the DOC subsidy, the caseworkers are required to execute a revised Agreement.

## Department of Human Services State of Hawaii

Summary Schedule of Prior Audit Findings (continued)  
June 30, 2016

### Recommendations

### Status

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

##### **2015-12 Proper Determination of Benefit Amount (continued)**

**CFDA No.: 93.659  
Program: Adoption Assistance**

***Condition, cause and context:*** During our audit, we selected 60 cases for testing and noted the following:

- 3 instances where the Agreement was not revised after a change to the amount of the benefit payment resulting in an overpayment of benefits of \$1,076 per month, or \$12,912 for the year.
- 2 instances where the DOC worksheet was missing, resulting in an overpayment of benefits of \$791 per month, or \$9,492 for the year.
- 1 instance where the amount per the Agreement was less than the benefit payment due to a data entry error for the supplemental subsidy, resulting in an underpayment of benefits of \$84 per month, or \$336 for the year.

Although the Department has policies and procedures in place to ensure the proper support for the monthly adoption assistance payment is maintained, calculated, and authorized, there was a lack of diligence in complying with the policies and procedures.

***Effect:*** Failure to properly document and maintain the support for the Adoption Assistance subsidy payments resulted in non-compliance with the Federal requirements and questioned costs.

## Department of Human Services State of Hawaii

Summary Schedule of Prior Audit Findings (continued)  
June 30, 2016

### Recommendations

### Status

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

##### **2015-12 Proper Determination of Benefit Amount (continued)**

**CFDA No.: 93.659  
Program: Adoption Assistance**

*Questioned Costs:* \$22,404

**Recommendations:** We recommend the Department be more diligent in following its existing policies and procedures to ensure compliance with the Federal requirements.

**Corrective Action Taken or Planned:** Child Welfare Services (CWS) Branch Administration will officially issue the updated policies and procedures and monitor progress on its implementation in the near future.

A screen that needed to be added to the database to verify completion of Adoption Assistance paperwork prior to issuance of payment could not be completed and is on hold. Specialists must initiate manual controls until this request can be completed.

CWS Section Administrators have been reviewing adoption assistance payment cases quarterly.

## Department of Human Services State of Hawaii

Summary Schedule of Prior Audit Findings (continued)  
June 30, 2016

### Recommendations

### Status

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

##### **2015-13 Maintaining Proper Case Documentation to Support Eligibility Determinations**

**CFDA No.: 93.558**

**Program: Temporary Assistance for  
Needy Families**

**Criteria:** The State of Hawaii Temporary Assistance for Needy Families State Plan provides the rules and regulations for the eligibility requirements of the TANF program subject to the requirements of 45 CFR 206.10. To apply for assistance, applicants must complete and file an application form, be interviewed by a caseworker, and have certain information verified. Further, to be eligible, the applicant must meet specific financial requirements.

This finding is still applicable. See finding 2016-15.

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

- 2 instances where the case file did not contain the application and interview form, birth certificate and State of Hawaii identification (ID). The missing documents resulted in benefit overpayment of \$3,820.
- 4 instances where the benefit amount was not calculated correctly, resulting in a benefit overpayment of \$2,138 and underpayment of \$25
- 1 instance where eligibility was incorrectly determined, resulting in benefit overpayment of \$3,050.

## Department of Human Services State of Hawaii

Summary Schedule of Prior Audit Findings (continued)  
June 30, 2016

### Recommendations

### Status

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

##### **2015-13 Maintaining Proper Case Documentation to Support Eligibility Determinations (continued)**

**CFDA No.: 93.558**  
**Program: Temporary Assistance for  
Needy Families**

***Effect:*** Failure to follow its policies and procedures limits the ability of the Department to demonstrate compliance with the requirement and resulted in questioned costs. Further, there is a risk of inaccurate eligibility determinations resulting in ineligible participants receiving benefits or eligible participants receiving excess or deficient benefit amounts.

***Questioned costs:*** \$9,008

***Recommendation:*** We recommend the Department diligently comply with its policies and procedures.

***Corrective Action Taken or Planned:*** Program office will work with the training office to strengthen the training provided to new hires and is also looking at visiting processing centers to do management evaluations and case reviews.

Program office is looking at requiring processing centers to include review of TANF cases monthly, which shall be sent to the Program office.

## Department of Human Services State of Hawaii

Summary Schedule of Prior Audit Findings (continued)  
June 30, 2016

### Recommendations

### Status

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

##### **2015-14 Procurement, Suspension and Debarment**

**CFDA No.: 93.558**

**Program: Temporary Assistance for  
Needy Families**

**Criteria:** In accordance with Office of Management and Budget (OMB) 2 CFR 180.300, when a non-Federal entity enters into a covered transaction with an entity at a lower tier, the non-Federal entity must verify that the entity and its principals are not suspended or debarred or otherwise excluded from participating in the transaction by checking the Excluded Parties List System (EPLS), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity.

This finding is no longer applicable.

**Condition, cause, and context:** We selected 8 of 21 new or renewed contracts procured in the current year for testing and noted that the Department did not verify whether the vendors were suspended or debarred from Federal contracts. The Department asserted that they were not aware of the requirement to verify that the subrecipient was not suspended or debarred or otherwise excluded from Federal contracts. We searched the EPLS and verified that the selected vendors were not suspended or debarred.

**Effect:** Failure to properly verify that the contracting agency is not an excluded party could result in payments to excluded parties.

**Questioned costs:** None

**Department of Human Services  
State of Hawaii**

Summary Schedule of Prior Audit Findings (continued)  
June 30, 2016

Recommendations

Status

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

**2015-14 Procurement, Suspension and  
Debarment (continued)**

**CFDA No.: 93.558  
Program: Temporary Assistance for  
Needy Families**

***Recommendation:*** We recommend the Department develop policies and procedures to ensure compliance with the requirement.

***Corrective Action Taken or Planned:*** The Benefit, Employment, and Support Services Division (BESSD) has issued instructions to Program Offices that conduct procurements to conduct searches on vendors in EPLS, through Sam.gov prior to entering into a contractual agreement. The results of these searches will be printed out and filed in the contract folder for verification.



## Department of Human Services State of Hawaii

Summary Schedule of Prior Audit Findings (continued)  
June 30, 2016

### Recommendations

### Status

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

##### 2015-15 Quarterly Reporting

CFDA No.: 93.558

**Program: Temporary Assistance for  
Needy Families**

**Criteria:** 45 CFR 265.3 requires each State to collect on a monthly basis, and file on a quarterly basis, the data specified in the Temporary Assistance for Needy Families (TANF) Data Report.

This finding is still applicable. See finding 2016-11.

**Condition, cause and context:** We selected 4 quarterly Data Reports for testing and further selected 60 case files which supported the information included in the Data Reports noting the following:

- For 2 quarterly reports, the key report line item “TANF Family Exempt from Time\_Limits” was incorrectly reported for 4 case files.
- For 2 quarterly reports, the key line item “Work Participation Status” was incorrectly reported for 3 case files.

The Department indicated that the errors were due to information that was updated in its system subsequent to the period in which the report was generated.

**Effect:** Failure to properly report the correct data resulted in non-compliance with the requirement. Further, 45 CFR 265.8 allows for a potential penalty to be imposed when the Department fails to comply with the requirement.

**Department of Human Services  
State of Hawaii**

Summary Schedule of Prior Audit Findings (continued)  
June 30, 2016

Recommendations

Status

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

**2015-15 Quarterly Reporting (continued)**

**CFDA No.: 93.558**

**Program: Temporary Assistance for  
Needy Families**

*Questioned costs:* None

**Recommendation:** We recommend the Department develop policies and procedures over the reporting requirement. Specifically, the Department should consider including cut-off periods to ensure information reported is complete and accurate.

**Corrective Action Taken or Planned:** No procedures were developed. A Financial Assistance Program (FAP) Specialist reviews the error reports as they are received and resolves the issues found. An Employment and Training Program (ETP) Specialist is also assigned to review any errors involving work activity data.

## Department of Human Services State of Hawaii

Summary Schedule of Prior Audit Findings (continued)  
June 30, 2016

### Recommendations

### Status

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

##### **2015-16 Federal Funding Accountability and Transparency Act (FFATA) Reporting**

**CFDA No.: 93.558**

**Program: Temporary Assistance for  
Needy Families**

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

This finding is no longer applicable.

**Condition, cause and context:** The Department indicated that they did not comply with the FFATA reporting requirements for all subawards. Program management indicated that they were aware of the requirement but due to miscommunication with the Fiscal Management Office (FMO) regarding the responsibilities of reporting, reports were not submitted in the required time frame. The finding was also noted in prior year finding 2014-15.

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

**Questioned costs:** None

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

**Department of Human Services  
State of Hawaii**

Summary Schedule of Prior Audit Findings (continued)  
June 30, 2016

Recommendations

Status

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

**2015-16 Federal Funding Accountability and  
Transparency Act (FFATA) Reporting  
(continued)**

**CFDA No.: 93.558  
Program: Temporary Assistance for  
Needy Families**

*Corrective Action Taken or Planned:* The Benefit, Employment, and Support Services Division (BESSD) has issued instructions to Program Offices that conduct procurements to enter the contract award via FSRS within 30 days of obligating the contract funding. The FSRS record entry will be printed out and filed in the contract folder for verification.

## Department of Human Services State of Hawaii

Summary Schedule of Prior Audit Findings (continued)  
June 30, 2016

### Recommendations

### Status

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

##### **2015-17 Maintaining Proper Case Documentation to Support Compliance with Child Support Non-Cooperation Requirement**

**CFDA No.: 93.558**

**Program: Temporary Assistance for  
Needy Families**

**Criteria:** 45 CFR section 264.30 states the Title IV-A agency must take appropriate action, as defined, if the Title IV-D agency determines that an individual is not cooperating with the child support enforcement requirements.

This finding is still applicable. See finding 2016-12.

**Condition, cause and context:** The Child Support Enforcement Agency (CSEA), the Department's Title IV-D agency, will identify TANF participants (cases) as non-cooperating. We selected 60 participants from a listing of non-cooperating participants, noting 38 did not have documentation in their file to indicate whether the Department took appropriate action regarding their non-cooperation, resulting in an overpayment of benefits of \$68,190.

Although the Department has policies and procedures in place which require the program to maintain the required documents or to ensure that appropriate benefit reduction actions are taken, there was a lack of diligence in either filing or obtaining the required documents and stopping benefit payments.

**Effect:** Failure to properly maintain the required documentation on file resulted in non-compliance with the requirements and questioned costs.

**Questioned costs:** \$68,190

**Department of Human Services  
State of Hawaii**

Summary Schedule of Prior Audit Findings (continued)  
June 30, 2016

Recommendations

Status

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

**2015-17 Maintaining Proper Case Documentation  
to Support Compliance with Child  
Support Non-Cooperation Requirement  
(continued)**

**CFDA No.: 93.558  
Program: Temporary Assistance for  
Needy Families**

***Recommendation:*** We recommend the Department diligently perform the required procedures and maintain the appropriate documents to comply with its policies and procedures.

***Corrective Action Taken or Planned:*** Working on modifying the HAWI system to keep non-compliance information received from the Child Support Enforcement Agency (CSEA) and to not allow TANF payments to be authorized until an eligibility worker actually works on the case.

## Department of Human Services State of Hawaii

Summary Schedule of Prior Audit Findings (continued)  
June 30, 2016

### Recommendations

### Status

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

##### **2015-18 Improve the Monitoring of Required Work Participation Hours**

**CFDA No.: 93.558**

**Program: Temporary Assistance for  
Needy Families**

**Criteria:** Each State agency must comply with its Work Verification Plan, including adequate documentation, verification, and internal control procedures. The documentation and verification of work activity is governed by 45 CFR sections 261.60 - .61. To comply with the Federal rule, the Hawaii Administrative Rules (HAR) provides guidelines by which the Department implements programs it administers. HAR 17-794.1-38, First-to-Work (FTW) Program, provides the Department with guidelines on the administration of the FTW program which administers the Work Verification Plan. HAR 17-794.1-37(k), states that if participants fail to make good and satisfactory progress, or maintain good standing, or comply with the minimum number of hours of participation without good cause, as defined, the Department shall impose a sanction in accordance with HAR 17-656.1-10.

This finding is still applicable. See finding 2016-13.

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

- 4 instances where work activity hours, which were accurately reported, did not meet the required number of hours and there was no documentation evaluating the cause or lack of sanctions imposed.

## Department of Human Services State of Hawaii

Summary Schedule of Prior Audit Findings (continued)  
June 30, 2016

### Recommendations

### Status

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

##### **2015-18 Improve the Monitoring of Required Work Participation Hours (continued)**

**CFDA No.: 93.558**  
**Program: Temporary Assistance for  
Needy Families**

- 1 instance where work activity hours, which were overstated by 2 hours, did not meet the required work activity hours and there was no documentation evaluating the cause or lack of sanctions imposed.
- 1 instance where a participant was incorrectly categorized as exempt from the work participation requirement.
- 1 instance where a required form was not signed by the caseworker.

Although the Department has established policies and procedures in place to ensure that accurate work activity is tracked, reported, and documented, the Department did not diligently follow existing policies and procedures.

***Effect:*** Failure to properly track, report, and document the amount of work activity by participants resulted in noncompliance with the requirement. Further, the Department of Health and Human Services may penalize a State by an amount not less than one percent and not more than five percent of the State Family Assistance Grant for violation of 45 CFR sections 261.60-.61.

***Questioned costs:*** None



**Department of Human Services  
State of Hawaii**

Summary Schedule of Prior Audit Findings (continued)  
June 30, 2016

Recommendations

Status

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

**2015-18 Improve the Monitoring of Required  
Work Participation Hours (continued)**

**CFDA No.: 93.558  
Program: Temporary Assistance for  
Needy Families**

***Recommendation:*** The Department should diligently apply the policies and procedures in place to comply with the Work Verification Plan.

***Corrective Action Taken or Planned:*** Procedures for Quality Assurance (QA) Audits and First-To-Work (FTW) Operational Procedures Section 15-104, “Administration – Work Verification Plan (WVP) Audits”, was revised and took effect upon distribution in February 2016.

Revising the FTW Program forms and operational procedures, issuing policy clarifications (PC), and restructuring its training curriculum will be on-going.

## Department of Human Services State of Hawaii

Summary Schedule of Prior Audit Findings (continued)  
June 30, 2016

### Recommendations

### Status

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

##### **2015-19 Maintaining Proper Case Documentation to Support Eligibility Determinations**

**CFDA No.: 93.568**

**Program: Low Income Home Energy  
Assistance**

**Criteria:** 42 USC Chapter 94 Section 8624(b)(2) allows the Department to provide assistance to (a) households in which one or more individuals are receiving Temporary Assistance for Needy Families (TANF), Supplemental Security Income (SSI), Supplemental Nutrition Assistance Program (SNAP) benefits, or certain needs-tested veterans benefits; or (b) households with incomes which do not exceed the greater of 150 percent of the State's established poverty level, or 60 percent of the State median income. Further 42 USC Chapter 94 Section (d) requires the State to expend funds in accordance with the State plan under this subchapter or in accordance with revisions applicable to such a plan.

This finding is still applicable. See finding 2016-17.

**Condition, cause and context:** During our audit, we selected 69 case files for testing and noted the following:

- 6 instances where the income information used in the LIHEAP (eligibility) Determination form to calculate the eligible credit amount was incorrect, resulting in the underpayment of benefits in the amount of \$156.
- 1 instance where the applicant's information regarding public/subsidized information was incorrect, resulting in the underpayment of benefits in the amount of \$430.

**Department of Human Services  
State of Hawaii**

Summary Schedule of Prior Audit Findings (continued)  
June 30, 2016

Recommendations

Status

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

**2015-19 Maintaining Proper Case Documentation  
to Support Eligibility Determinations  
(continued)**

**CFDA No.: 93.568  
Program: Low Income Home Energy  
Assistance**

- 15 instances where the LIHEAP (eligibility) Determination form was missing a sign off by either the preparer or the second reviewer. This did not result in an over or underpayment of benefits.

Although the Department has policies and procedures in place to ensure that eligibility determinations and benefit calculations are performed accurately and properly reviewed, there was a lack of diligence in following the policies and procedures.

***Effect:*** Failure to follow the policies and procedures resulted in non-compliance with the requirements and benefit underpayments.

***Questioned costs:*** None

***Recommendation:*** We recommend the Department be more diligent in ensuring that benefit calculations and reviews are performed and documented in accordance with the established policies and procedures.

**Department of Human Services  
State of Hawaii**

Summary Schedule of Prior Audit Findings (continued)  
June 30, 2016

Recommendations

Status

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

**2015-19 Maintaining Proper Case Documentation  
to Support Eligibility Determinations  
(continued)**

**CFDA No.: 93.568  
Program: Low Income Home Energy  
Assistance**

*Corrective Action Taken or Planned:* The Low Income Home Energy Assistance Program (LIHEAP) Coordinator will ensure that the policies and procedures for LIHEAP is followed and adhered to with the following actions:

1. Training to be provided for LIHEAP contractors with the emphasis put on income calculation.
2. Review the LIHEAP Policy and Procedures with contractors to ensure better documentation. Also review the procedures within their agency to ensure better documentation.
3. Review the signature and sign off requirements, although the agency size may require adjustments to this procedure as necessary. Reviews of procedures will be conducted and an analysis will be made to determine if adjustments are needed to ensure that accuracy is maintained within each agency.

## Department of Human Services State of Hawaii

Summary Schedule of Prior Audit Findings (continued)  
June 30, 2016

### Recommendations

### Status

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

##### **2015-20 Maintaining Proper Case Documentation to Support Eligibility Determinations**

**CFDA No.: 15.875**

**Program: Economic, Social, and Political  
Development of the Territories**

**Criteria:** In accordance with 42 CFR 435.907, the Department must accept an application from the applicant, and any documentation required to establish eligibility.

This finding is no longer applicable.

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

- 3 instances where no application and verification of citizenship was maintained, resulting in benefit overpayments of \$3,982.
- 9 instances where no application was maintained, resulting in benefit overpayments of \$9,525.
- 5 instances where no verification of citizenship was maintained, resulting in benefit overpayments of \$3,911.

The Department has policies and procedures in place covering the eligibility determination process but these policies and procedures were not diligently complied with.

**Effect:** Failure to follow its policies and procedures limits the ability of the Department to demonstrate compliance with the program requirements and resulted in questioned costs.

**Questioned costs:** \$17,418

**Department of Human Services  
State of Hawaii**

Summary Schedule of Prior Audit Findings (continued)  
June 30, 2016

Recommendations

Status

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

**2015-20 Maintaining Proper Case Documentation  
to Support Eligibility Determinations  
(continued)**

**CFDA No.: 15.875  
Program: Economic, Social, and Political  
Development of the Territories**

***Recommendation:*** We recommend the Department to diligently comply with its policies and procedures.

***Corrective Action Taken or Planned:*** The Division will begin work on the Request for Proposal (RFP) to procure a contractor to re-engineer the workflow. In addition, the Division has purchased additional equipment (i.e., scanners) that will further assist the Division to ensure documents are scanned into a case file. This should reduce the occurrence of documents not being able to be found and ensuring complete files are there whenever cases are reassigned to another worker.

## Department of Human Services State of Hawaii

Summary Schedule of Prior Audit Findings (continued)  
June 30, 2016

### Recommendations

### Status

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

##### **2015-21 Semi-Annual Reporting**

**CFDA No.: 15.875**

**Program: Economic, Social, and Political  
Development of the Territories**

**Criteria:** Per the Grant Terms & Conditions, a SF-425 Federal Financial Report and a narrative project status report will be submitted semi-annually for the periods beginning January 1 and ending June 30, and beginning July 1 and ending December 31. The reports are due within 30 days of the end of the period. Final reports are due 90 days after the expiration or termination of the award.

This finding is still applicable. See finding 2016-09.

**Condition, cause and context:** During our audit, we noted that the Department submitted an annual report outside of the required 30 days after period end. We further noted that the required final report was not filed.

Program management indicated that they were aware of the reporting requirement but did not have procedures in place to address the filing of reports.

**Effect:** Failure to properly file the required reports resulted in non-compliance with the requirement.

**Questioned costs:** None

**Recommendation:** We recommend the Department develop and implement procedures to ensure that the required federal financial reports are submitted and on a timely basis.

**Department of Human Services  
State of Hawaii**

Summary Schedule of Prior Audit Findings (continued)  
June 30, 2016

Recommendations

Status

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

**2015-21 Semi-Annual Reporting (continued)**

**CFDA No.: 15.875**

**Program: Economic, Social, and Political  
Development of the Territories**

*Corrective Action Taken or Planned:* The Department is working to see if the language in the grant letter can be revised to report annually. Until then, semi-annual reports will be filed.



## Department of Human Services State of Hawaii

Summary Schedule of Prior Audit Findings (continued)  
June 30, 2016

### Recommendations

### Status

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

##### 2015-22 EBT Card Security

CFDA No.: 10.551 and 10.561

Program: Supplemental Nutrition  
Assistance Program (SNAP) Cluster

**Criteria:** In accordance with 7 CFR section 274.8(b)(3), the Department is required to ensure EBT security requirements are established for storage and control measures to control blank unissued EBT cards and PINs. The Department's policy is to lock up blank EBT cards when not in use and to log destroyed EBT cards onto the Daily Control Log (DHS 1495) form.

This finding is no longer applicable.

**Condition, cause and context:** During our testing, we noted 2 out of 3 processing centers selected for testing where bulk EBT cards were not physically secured in a locked drawer or cabinet and EBT cards that were destroyed but were not logged on the Daily Control Log.

There are policies and procedures in place regarding the physical security over EBT cards but the Department did not diligently comply with existing policies and procedures.

**Effect:** Failure to secure the bulk EBT cards and log destroyed EBT cards resulted in non-compliance with the requirement.

**Questioned costs:** None

**Department of Human Services  
State of Hawaii**

Summary Schedule of Prior Audit Findings (continued)  
June 30, 2016

Recommendations

Status

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

**2015-22 EBT Card Security (continued)**

**CFDA No.: 10.551 and 10.561**

**Program: Supplemental Nutrition  
Assistance Program (SNAP) Cluster**

*Corrective Action Taken or Planned:* The EBT office has reviewed all physical security of bulk EBT card inventory as well as the documentation of all destroyed EBT cards within each processing center. The EBT office will address these findings in revised documentation and will be issuing updated procedures to ensure that all offices comply with federal requirements. These revised DHS documents and EBT procedures will be issued to staff by the end of SFY 2016.

# **Department of Human Services State of Hawaii**

Summary Schedule of Prior Audit Findings (continued)  
June 30, 2016

## Recommendations

## Status

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

#### **2015-23 Eligibility Determination and Benefit Calculation**

**CFDA No.: 10.551 and 10.561**  
**Program: Supplemental Nutrition Assistance Program (SNAP) Cluster**

**Criteria:** The application process for SNAP is governed by 7 CFR 273.2. To comply with the Federal rule, the Hawaii Administrative Rules (HAR) provides guidelines by which the Department implements programs it administers. In accordance with the Hawaii Administrative Rules 17-647-32, Verification, the Department shall verify information, as defined, prior to certification for households which are initially applying for SNAP.

This finding is still applicable. See finding 2016-16.  
.

**Condition, cause and context:** We selected 60 case files during our testing of the Eligibility determination and noted the following:

- 1 instance where information (i.e. Identification) was not maintained in the case file to support the data input into the system, resulting in benefit overpayment of \$867.
- 2 instances where the benefit amount was calculated with old information, resulting in benefit underpayment of \$51.

The Department indicated that there are policies and procedures in place regarding application processing and eligibility determination but the Department did not diligently comply with these policies and procedures.

**Department of Human Services  
State of Hawaii**

Summary Schedule of Prior Audit Findings (continued)  
June 30, 2016

Recommendations

Status

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

**2015-23 Eligibility Determination and Benefit  
Calculation (continued)**

**CFDA No.: 10.551 and 10.561  
Program: Supplemental Nutrition  
Assistance Program (SNAP) Cluster**

***Effect:*** Failure to follow its policies and procedures limits the Department's ability to demonstrate compliance with the requirement and resulted in questioned costs.

***Questioned costs:*** \$867

***Recommendation:*** We recommend the Department diligently comply with its policies and procedures to ensure compliance with the requirement.

***Corrective Action Taken or Planned:*** SNAP will review the verification requirements and the document retention requirements with the Management of Processing Centers.

## Department of Human Services State of Hawaii

Summary Schedule of Prior Audit Findings (continued)  
June 30, 2016

### Recommendations

### Status

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

##### **2015-24 Improve the Accuracy of Child Care Reimbursements**

**CFDA No.: 93.575 and 93.596**  
**Program: Child Care and Development  
Fund (CCDF) Cluster**

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

This finding is still applicable. See finding 2016-06.

**Condition, cause and context:** We selected 60 case files for testing and noted two instances where the information used in the Child Care Worksheet to calculate the eligible child care payments was incorrect. These errors resulted in two instances in which benefit payments totaling \$1,159 was overpaid to participants.

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

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

**Questioned costs:** \$1,159

**Department of Human Services  
State of Hawaii**

Summary Schedule of Prior Audit Findings (continued)  
June 30, 2016

Recommendations

Status

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

**2015-24 Improve the Accuracy of Child Care  
Reimbursements (continued)**

**CFDA No.: 93.575 and 93.596  
Program: Child Care and Development  
Fund (CCDF) Cluster**

***Recommendation:*** We recommend the Department to continue to perform post payment reviews of a sample of child care payments with a focus on the types of cases that are more susceptible to errors to ensure accuracy and assess case worker performance.

***Corrective Action Taken or Planned:*** BESSD's Staff Development Office (SDO) is currently working on revising and refining the First-To-Work and Child Care training modules.

## Department of Human Services State of Hawaii

Summary Schedule of Prior Audit Findings (continued)  
June 30, 2016

### Recommendations

### Status

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

##### **2015-25 Monitor the Medicaid Drug Rebate Program**

**CFDA No.: 93.778**  
**Program: Medical Assistance Program**

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

This finding is still applicable. See finding 2016-19.

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

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

**Questioned costs:** None

**Department of Human Services  
State of Hawaii**

Summary Schedule of Prior Audit Findings (continued)  
June 30, 2016

Recommendations

Status

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

**2015-25 Monitor the Medicaid Drug Rebate  
Program (continued)**

**CFDA No.: 93.778  
Program: Medical Assistance Program**

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

***Corrective Action Taken or Planned:*** The pharmacist is on-board and has begun monitoring and working with the contractor in development of reports, review of reports, and issuance of applicable policies.



**PART VI**  
**CORRECTIVE ACTION PLAN**

DAVID Y. IGE  
GOVERNOR



PANKAJ BHANOT  
DIRECTOR

BRIDGET HOLTHUS  
DEPUTY DIRECTOR

STATE OF HAWAII  
**DEPARTMENT OF HUMAN SERVICES**

P. O. Box 339  
Honolulu, Hawai'i 96809-0339

March 21, 2017

Mr. Wilcox Choy, Partner  
KMH LLP  
1003 Bishop Street  
Suite 2400  
Honolulu, Hawai'i 96813

Dear Mr. Choy:

As requested by one of your audit staff, we have enclosed the Department of Human Services' views of responsible officials and corrective action plans related to the fiscal year 2016 audit report findings and recommendations.

If you have any questions regarding these corrective action plans or need assistance in other areas of the fiscal 2016 audit, please contact Mrs. Vickie Edu at (808) 586-4878.

Sincerely,

A handwritten signature in blue ink that reads "Pankaj Bhanot".

Pankaj Bhanot  
Director

Enclosure

State of Hawai'i  
Department of Human Services  
Corrective Action Plans for Findings and Recommendations  
For the Fiscal Year Ended June 30, 2016

Finding	Division	Recommendation	Corrective Action Plans
74-75	MQD	2016-01. Financial Statement Reporting. This is an instance of material weakness. We recommend assessing the staffing requirements and the assignment of financial reporting responsibilities.	<p><b>Views of responsible officials:</b> The Department agrees with the finding and will implement corrective action.</p> <p><b>Corrective Action Taken or Planned:</b> Corrective action has been taken as Accountant vacancies have recently been filled and a Finance Officer has also been hired. As the new accountant gains knowledge and learns about the systems and operations of the office, we will look to appropriately assign reporting responsibilities.</p> <p><b>End Date:</b> On-going</p> <p><b>Responding Person:</b> Eric Nouchi, MQD Finance Officer, (808) 692-7956</p>
76-77, 76-77	MQD	2016-02, 2015-01. Complete Eligibility Applications and Annual Eligibility Re-verifications in a Timely Manner. This is an instance of non-compliance, a material weakness, and a repeat finding. We recommend assessing the staffing requirements and reviewing procedures to ensure eligibility determinations are properly	<p><b>Views of responsible officials:</b> The Department agrees with the finding and want to clarify that our KOLEA system is programmed to trigger the mandatory annual re-verification process. The Department will implement corrective action.</p> <p><b>Corrective Action Taken or Planned:</b> Effective October 2014, all non-MAGI annual</p>

State of Hawai'i  
Department of Human Services  
Corrective Action Plans for Findings and Recommendations  
For the Fiscal Year Ended June 30, 2016

Finding	Division	Recommendation	Corrective Action Plans
		performed in a timely manner. We also recommend adding the renewal determination timeliness capability to the KOLEA system.	<p>review (ER) became passively renewed. All households are sent an annual renewal form to complete and return if there are any changes in their circumstances. If the renewal form is not returned, KOLEA automatically re-determines eligibility based on information existing on record in the KOLEA system. Therefore, eligibility is being re-determined in accordance with Title 42 CFR Part 435.916 for the vast majority of cases.</p> <p>Additionally, we have recently learned the KOLEA reports used to determine processing times for applications that are not completed timely were not entirely correct due to using the original date of application when a new person was being added to a Medicaid case. This system issue has been identified for remedy with the KOLEA team. As a result, we believe the reports used for this audit may have over-inflated the number of applications that appeared to have been processed or renewed untimely.</p>

State of Hawai'i  
Department of Human Services  
Corrective Action Plans for Findings and Recommendations  
For the Fiscal Year Ended June 30, 2016

Finding	Division	Recommendation	Corrective Action Plans
			<p>Med-Quest Division (MQD) will continue to recommend that applicants apply using the KOLEA system which can significantly reduce eligibility processing time. MQD's Eligibility Branch is also implementing monthly case management reporting with supervisors and staff to ascertain and ensure staff are in compliance with existing policies and procedures. Also, system-generated reports are in development to assist staff with timely processing of their caseload.</p> <p>Finally, as part of a larger DHS strategic initiative, MQD is in the process of contracting with a vendor to implement a Business Process Redesign of its consumer facing operations. The results of this redesign will provide guidance related to the appropriate staffing levels necessary to serve beneficiaries in a customer-focused environment that also meets the standards set forth in the Code of Federal Regulations.</p> <p><b>End Date:</b> Training – On-going;</p>

State of Hawai'i  
Department of Human Services  
Corrective Action Plans for Findings and Recommendations  
For the Fiscal Year Ended June 30, 2016

Finding	Division	Recommendation	Corrective Action Plans
			<p>Business Process Redesign – July 1, 2018</p> <p><b>Responding Person:</b> Gail Omura, MQD Eligibility Branch Administrator – TA, (808) 587-7291 and Meredith Nichols, MQD Assistant Administrator – TA, (808) 692-8151</p>
78-79	DVR	<p>2016-03. Maintaining Proper Case Documentation to Support Eligibility Determinations. This is an instance of non-compliance and material weakness. We recommend more diligence in complying with the policies and procedures in place to ensure compliance with the Federal requirements.</p>	<p><b>Views of responsible officials:</b> The Department agrees with the finding and will implement corrective action.</p> <p><b>Corrective Action Taken or Planned:</b></p> <ol style="list-style-type: none"> <li>1. The Vocational Rehabilitation Administrator will issue an Internal Communication Form (ICF) outlining the Division's requirement for maintaining proper case documentation to support eligibility determinations to include the requirement that case documentation to support eligibility determinations be completed and/or scanned into the client's file in the AKAMAI case management system</li> </ol>

State of Hawai'i  
Department of Human Services  
Corrective Action Plans for Findings and Recommendations  
For the Fiscal Year Ended June 30, 2016

Finding	Division	Recommendation	Corrective Action Plans
			<p>within two (2) working days. The ICF will be completed and distributed to Branch Administrators by March 31, 2017 for implementation.</p> <p>2. All Branch Administrators will meet with their VR Supervisors to ensure that they understand the ICF and commit to following the established and written procedures.</p> <p>3. The VR Supervisors will be instructed to check all current cases monthly and report results to the Branch Administrator. Based on the monthly reports received from the VR Supervisor(s), as appropriate, the Branch Administrator will work with the Supervisor(s) to enable them to adhere to the procedures.</p> <p>4. The April 2017 and October 2017 case review results will indicate whether or not compliance has been</p>

State of Hawai'i  
Department of Human Services  
Corrective Action Plans for Findings and Recommendations  
For the Fiscal Year Ended June 30, 2016

Finding	Division	Recommendation	Corrective Action Plans
			<p>achieved.</p> <p>5. If the April 2017 and/or October 2017 case review results indicates that compliance has been achieved, the Vocational Rehabilitation Administrator will document their success in their supervisory notes and Employee Performance Appraisal.</p> <p>6. If the October 2017 case review results indicates non-compliance, the Branch Administrator and the Vocational Rehabilitation Administrator will jointly develop a plan of action to correct the non-compliance.</p> <p><b>End Date:</b> October 2017</p> <p><b>Responding Person:</b> Albert Perez, Vocational Rehabilitation Administrator, (808) 586-9741</p>



State of Hawai'i  
Department of Human Services  
Corrective Action Plans for Findings and Recommendations  
For the Fiscal Year Ended June 30, 2016

Finding	Division	Recommendation	Corrective Action Plans
80-81, 84-86	DVR	2016-04, 2015-05. Complete Eligibility Determinations in a Timely Manner. This is an instance of non-compliance, a material weakness, and a repeat finding. We recommend more diligence in complying with the policies and procedures in place to ensure compliance with the Federal requirements.	<p><b><i>Views of responsible officials:</i></b> The Department agrees with the finding and will implement corrective action.</p> <p><b><i>Corrective Action Taken or Planned:</i></b></p> <ol style="list-style-type: none"> <li>1. The Vocational Rehabilitation Administrator will issue an Internal Communication Form (ICF) outlining the Division's updated requirements to complete eligibility determinations in a timely manner. The ICF will include the updated procedures as listed below. The ICF will be completed and distributed to Branch Administrators by March 31, 2017 for implementation. <ul style="list-style-type: none"> <li>• The Supervisor will check to make sure that every referral that is moved into Application status is recorded in AKAMAI, VR's case management system.</li> <li>• Every case in Application status will</li> </ul> </li> </ol>

State of Hawai'i  
 Department of Human Services  
 Corrective Action Plans for Findings and Recommendations  
 For the Fiscal Year Ended June 30, 2016

Finding	Division	Recommendation	Corrective Action Plans
			<p>be reviewed after 30 days, and 45 days by the Supervisor. AKAMAI is set up to provide a "list" for each Vocational Rehabilitation Specialist (VRS) as an additional reminder.</p> <ul style="list-style-type: none"> <li>• At monthly staff meetings, the Supervisor will review the application status for the branch/section.</li> <li>• Each VRS will be required to bring a printout of their cases in application status to each staff meeting so VRS can see where they are in relation to the Section/Branch to reach their goal.</li> <li>• Supervisor will encourage feedback and sharing at the staff meeting to identify best practices to achieve the requirement of 60 day eligibility determination.</li> <li>• Supervisor will have</li> </ul>

State of Hawai'i  
Department of Human Services  
Corrective Action Plans for Findings and Recommendations  
For the Fiscal Year Ended June 30, 2016

Finding	Division	Recommendation	Corrective Action Plans
			<p>individual meetings with the VRS when a case is at 30 day status to discuss what needs to be done to determine whether or an individual is eligible within a reasonable period of time, not to exceed 60 days.</p> <ul style="list-style-type: none"> <li>• Once the case reaches 45 days in application Status, the Supervisor will determine which of the four (4) actions will be taken: (1) Move the case into Eligible Status; (2) Move the case into Trial Work Status; (3) Move the case into closed Status with documented justification or (4) Obtain 60-Day Waiver with justification from the client.</li> </ul> <p>2. If VRS achieves their goal, the supervisor will document the success on supervisory notes.</p> <p>3. If VRS does not achieve their goal, the Supervisor</p>

State of Hawai'i  
Department of Human Services  
Corrective Action Plans for Findings and Recommendations  
For the Fiscal Year Ended June 30, 2016

Finding	Division	Recommendation	Corrective Action Plans
			<p>will agree upon an action plan to enable the VRS to reach the goal and document the plan on supervisory notes.</p> <p>4. Supervisor will ensure that the plan is understood by the VRS. Supervisor will ensure that the VRS implements action plan.</p> <p>5. The April 2017 and October 2017 case review results will indicate whether or not compliance has been achieved.</p> <p>6. If the April 2017 and/or October 2017 case review results indicates that compliance has been achieved, the Vocational Rehabilitation Administrator will document their success in their supervisory notes and Employee Performance Appraisal.</p> <p>7. If the October 2017 case review results indicates continued non-</p>

State of Hawai'i  
Department of Human Services  
Corrective Action Plans for Findings and Recommendations  
For the Fiscal Year Ended June 30, 2016

Finding	Division	Recommendation	Corrective Action Plans
			<p>compliance, the Branch Administrator will be notified by the Vocational Rehabilitation Administrator that their Performance Appraisal will reflect their non-compliance for this specific requirement. Accordingly, a plan of action to correct the non-compliance will be developed jointly by the Branch Administrator and Vocational Rehabilitation Administrator.</p> <p><b>End Date:</b> October 2017</p> <p><b>Responding Person:</b> Albert Perez, Vocational Rehabilitation Administrator, (808) 586-9741</p>
82-83, 91-93	DVR	2016-05, 2015-08. Complete Individualized Plan for Employment in a Timely Manner. This is an instance of non-compliance, a material weakness, and a repeat finding. We recommend more diligence in complying with the policies and procedures in place to ensure compliance with the Federal requirements.	<p><b>Views of responsible officials:</b> The Department agrees with the finding and will implement corrective action.</p> <p><b>Corrective Action Taken or Planned:</b></p> <ol style="list-style-type: none"> <li>1. The Vocational Rehabilitation Administrator will revise the Internal Communication Form (ICF) outlining the</li> </ol>

State of Hawai'i  
Department of Human Services  
Corrective Action Plans for Findings and Recommendations  
For the Fiscal Year Ended June 30, 2016

Finding	Division	Recommendation	Corrective Action Plans
			<p>Division's requirement for a signed plan to include the requirement that the signed plan be scanned into the client's file in the AKAMAI case management system within two (2) working days. The ICF will be completed and distributed to Branch Administrators by March 31, 2017 for implementation.</p> <p>2. All Branch Administrators will meet with their VR Supervisors to ensure that they understand the ICF and commit to following the established and written procedures. The VR Supervisors will be instructed to check all current cases monthly and report results to the Branch Administrator. Based on the monthly reports received from their VR Supervisor(s), as appropriate, the Branch Administrator will work with the Supervisor(s) to enable them to adhere to the procedures.</p>

State of Hawai'i  
Department of Human Services  
Corrective Action Plans for Findings and Recommendations  
For the Fiscal Year Ended June 30, 2016

Finding	Division	Recommendation	Corrective Action Plans
			<p>3. The April 2017 and October 2017 case review results will indicate that whether or not compliance has been achieved.</p> <p>4. If the April 2017 and/or October 2017 case review results indicates that compliance has been achieved, the Vocational Rehabilitation Administrator will document their success in their supervisory notes and Employee Performance Appraisal.</p> <p>5. If the October 2017 case review results indicates continued non-compliance, the Branch Administrator will be notified by the Vocational Rehabilitation Administrator that their Employee Performance Appraisal will reflect their non-compliance for this specific requirement. Accordingly a plan of action to correct the non-</p>

State of Hawai'i  
Department of Human Services  
Corrective Action Plans for Findings and Recommendations  
For the Fiscal Year Ended June 30, 2016

Finding	Division	Recommendation	Corrective Action Plans
			<p>compliance will be developed jointly by the Branch Administrator and Vocational Rehabilitation Administrator.</p> <p><b>End Date:</b> October 2017</p> <p><b>Responding Person:</b> Albert Perez, Division of Vocational Rehabilitation Administrator, (808) 586-9741</p>
84-85, 125-127	BESSD	2016-06, 2015-24. Improve the Accuracy of Child Care Reimbursements. This is an instance of non-compliance, a material weakness, and a repeat finding. We recommend more diligence in complying with the policies and procedures in place to ensure compliance with the Federal requirements.	<p><b>Views of responsible officials:</b>  The Department agrees with the finding and will implement corrective action.</p> <p><b>Corrective Action Taken or Planned:</b> Since mid-2013, the Child Care Program Office (CCPO) staff has been working with the subsidy contractor in standardization of the contractor's Quality Assurance (QA) review protocols and instrument to be used for continuous quality improvement assessment of performance and staff training needs regarding accuracy of payments issued. The contractor is required to do monthly QA reviews, with CCPO providing the list of selected cases to the contractor.</p>



State of Hawai'i  
Department of Human Services  
Corrective Action Plans for Findings and Recommendations  
For the Fiscal Year Ended June 30, 2016

Finding	Division	Recommendation	Corrective Action Plans
			<p>ResCare staff conducts secondary sample case reviews of the contractor's cases for monitoring purposes and ensuring reliability of the contractor's QA process. The CCPO program staff continues to monitor the contractor and provide policy clarifications as needed to the contractor. CCPO completed the Federal Improper Payment Review of Federal Fiscal Year 2015 cases and provided information to both the Child Care Connection Hawaii contractor and First-To-Work units regarding the common errors identified. CCPO and the Employment and Training Program Office (ETPO) collaborated on a statewide meeting with all of the First-To-Work supervisors to review the errors found and the correct procedures that staff should be following. During the review process, CCPO provided on-going updates to the Child Care Connection Hawaii contractor of the errors identified and the correct procedures that staff should be following. CCPO staff has been short-staffed in SFY 2017 due to two staff retirements. CCPO will resume</p>

State of Hawai'i  
Department of Human Services  
Corrective Action Plans for Findings and Recommendations  
For the Fiscal Year Ended June 30, 2016

Finding	Division	Recommendation	Corrective Action Plans
			<p>secondary QA reviews of the subsidy contractor's cases once permanent staffing are hired and trained.</p> <p>The Department will also revisit seeking the assistance of DHS Quality Control (QC) unit to conduct secondary sample case reviews of the contractor's cases to assist in identifying areas in which additional training or policy clarification may be needed for the contract staff. CCPO had originally requested DHS QC assistance in mid-2012, however due to the caseload of the DHS QC unit it was determined that the DHS QC unit would not be able to assist CCPO in conducting secondary reviews until possibly 2017, dependent on the ability of DHS QC unit in filling vacant positions and provision of training for QC staff. The Staff Development Office will be resuming the training of new staff of the Child Care Connection Hawaii contractor by summer of 2017. All of the contractor's current staff will also complete refresher training by the Staff Development Office in the summer of 2017.</p>

State of Hawai'i  
Department of Human Services  
Corrective Action Plans for Findings and Recommendations  
For the Fiscal Year Ended June 30, 2016

Finding	Division	Recommendation	Corrective Action Plans
			<p>For the First-To-Work program that issues child care subsidies to families receiving financial assistance, staff from the Employment &amp; Training Program Office (ETPO) has incorporated the child care subsidy portion into the established monthly case reviews conducted by unit supervisors and section administrators and quarterly case reviews conducted by ETPO. Of the cases that are sampled for their First-To-Work Work Verification Plan reviews, the First-To-Work staff are utilizing the common review instrument to determine whether the child care subsidy issued was properly authorized. Training was provided to the units to ensure consistency in how they are conducting the reviews. Training was also provided to the First-To-Work staff to reinforce policies regarding issuance of child care assistance for First-To-Work clients. Beginning April 2017, ETPO will collaborate with the Staff Development Office to restructure the First-To-Work and HANA System Training to</p>

State of Hawai'i  
Department of Human Services  
Corrective Action Plans for Findings and Recommendations  
For the Fiscal Year Ended June 30, 2016

Finding	Division	Recommendation	Corrective Action Plans
			<p>allow additional time to be spent on the child care subsidies modules.</p> <p>Furthermore, through policy clarifications (PC), ETPO intends to compile common errors identified through the various case reviews and provide instructions to the FTW staff. The PC discussing the findings from both the state audit and federal review was issued in March 2016.</p> <p>CCPO issued a Desk Aid for child care subsidy staff for both the Child Care Connection Hawaii and First-To-Work offices in June 2015 to assist staff and contractors with common data entry errors into the DHS child care case management system. CCPO meets regularly with ETPO and the Child Care Connection Hawaii contractor to review the child care services administrative rules and determine areas in which policy clarification may be needed.</p> <p><b>End Date:</b> On-going</p> <p><b>Responding Person:</b> Dana Balansag, Child Care Program Administrator, (808) 586-7187</p>

State of Hawai'i  
Department of Human Services  
Corrective Action Plans for Findings and Recommendations  
For the Fiscal Year Ended June 30, 2016

Finding	Division	Recommendation	Corrective Action Plans
86-87, 99-101	SSD	2016-07, 2015-12. Proper Determination of Benefit Amount. This is an instance of non-compliance, a material weakness, and a repeat finding. We recommend more diligence in complying with the policies and procedures in place to ensure compliance with the Federal requirements.	<p><b>Views of responsible officials:</b> The Department agrees with the finding and believe that improvements can be made by staff to ensure more accurate determinations of benefit amounts. The Department will implement corrective action.</p> <p><b>Corrective Action Taken or Planned:</b> Our plans to reduce and/or eliminate these errors have included and will continue to include:</p> <ol style="list-style-type: none"> <li>1. Double-checking the amounts of the adoption assistance payment match the Adoption Assistance Agreement form, making sure DOC is available for DHS foster children who were adopted without receiving DOC at the time of the adoption, having supervisors ensure amounts match prior to authorizing payments, and having Section Administrators conduct monthly random reviews of three adoption assistance payment cases to verify accuracy of payment amounts to the Adoption Assistance form</li> </ol>

State of Hawai'i  
Department of Human Services  
Corrective Action Plans for Findings and Recommendations  
For the Fiscal Year Ended June 30, 2016

Finding	Division	Recommendation	Corrective Action Plans
			<p>and filed DOC form.</p> <ol style="list-style-type: none"> <li>2. Continue refresher trainings to staff on existing policies and procedures.</li> <li>3. Follow-up with the units involved in these findings to ensure the specific staff are knowledgeable about the error findings to ensure future prevent them from occurring again.</li> <li>4. CWS Section Administrators will conduct periodic reviews of payment only cases to monitor compliance to agency policy and procedures.</li> </ol> <p><b>End Date:</b> On-going</p> <p><b>Responding Person:</b> Bernadette Lane, SSD Assistant Program Administrator, (808) 586-5697</p>
88-89	SSD	2016-08. Maintaining Proper Case Documentation to Support Eligibility Determinations. This is an instance of non-compliance and material weakness. We	<p><b>Views of responsible officials:</b> The Department agrees with the finding and believe that improvements can be made by staff in case documentation to ensure more accurate eligibility</p>

State of Hawai'i  
Department of Human Services  
Corrective Action Plans for Findings and Recommendations  
For the Fiscal Year Ended June 30, 2016

Finding	Division	Recommendation	Corrective Action Plans
		recommend more diligence in complying with the policies and procedures in place to ensure compliance with the Federal requirements.	<p>determinations. The Department will implement corrective action.</p> <p><b><i>Corrective Action Taken or Planned:</i></b> Our plans to reduce and/or eliminate these errors have included and will continue to include:</p> <ol style="list-style-type: none"> <li>1. Double-checking the amounts of the adoption assistance payment match the Adoption Assistance Agreement form, making sure DOC is available for DHS foster children who were adopted without receiving DOC at the time of the adoption, having supervisors ensure amounts match prior to authorizing payments, and having Section Administrators conduct monthly random reviews of three adoption assistance payment cases to verify accuracy of payment amounts to the Adoption Assistance form and filed DOC form.</li> <li>2. Continue refresher trainings to staff on existing policies and</li> </ol>

State of Hawai'i  
Department of Human Services  
Corrective Action Plans for Findings and Recommendations  
For the Fiscal Year Ended June 30, 2016

Finding	Division	Recommendation	Corrective Action Plans
			<p>procedures.</p> <p>3. Follow-up with the units involved in these findings to ensure the staff are knowledgeable about the error findings to prevent them from occurring again.</p> <p>4. CWS Section Administrators Compliance Unit will conduct periodic reviews of payment only cases to monitor compliance to agency policy and procedures.</p> <p><b>End Date:</b> On-going</p> <p><b>Responding Person:</b> Bernadette Lane, SSD Assistant Program Administrator, (808) 586-5697</p>
90, 120	MQD	2016-09, 2015-21. Reporting. This is an instance of non-compliance, a material weakness, and a repeat finding. We recommend developing and implementing procedures to ensure that the required federal financial reports are submitted and on a timely basis.	<p><b>Views of responsible officials:</b> The Department partially agrees with the finding as some of the reports were filed however, they were not filed timely. The Department will implement corrective action.</p> <p><b>Corrective Action Taken or Planned:</b> We will work with the Department of the Interior to</p>



State of Hawai'i  
Department of Human Services  
Corrective Action Plans for Findings and Recommendations  
For the Fiscal Year Ended June 30, 2016

Finding	Division	Recommendation	Corrective Action Plans
			<p>recommend the reporting requirement be changed from semiannually to annually. In addition to that, we will work on making sure to submit the required reports on a timely basis.</p> <p><b>End Date:</b> On-going</p> <p><b>Responding Person:</b> Eric Nouchi, MQD Finance Officer, (808) 692-7956</p>
91-92, 97-98	SSD	2016-10, 2015-11. Tracking Earmarked Funds. This is an instance of non-compliance, a material weakness, and a repeat finding. We recommend providing adequate and continuous training to its contracted entities, in addition to sufficient monitoring to demonstrate compliance with the requirements.	<p><b>Views of responsible officials:</b> The Department agrees with the finding and will implement corrective action. The Department would like to note that Policies and Procedures were in place, however due to staff shortage, TANF eligible families was not consistently tracked nor monitored for TANF eligibility.</p> <p><b>Corrective Action Taken or Planned:</b></p> <ol style="list-style-type: none"> <li>1. All contracted service providers are informed of the percentage of TANF funding that they are receiving and understand that they must serve an equal percentage or exceed the percentage of</li> </ol>

State of Hawai'i  
Department of Human Services  
Corrective Action Plans for Findings and Recommendations  
For the Fiscal Year Ended June 30, 2016

Finding	Division	Recommendation	Corrective Action Plans
			<p>TANF eligible families/clients.</p> <p>2. All contracted service providers receiving TANF funding will be re-trained in procedures to identify and track families who meet TANF eligibility requirements utilizing the Program Participant Survey and reporting eligible TANF families on the Client Eligibility Lists (CELs).</p> <p>3. As CELS are submitted monthly with program invoices, Purchase of Services (POS) will ensure that percentage of TANF eligible families meets or exceeds percentage of TANF funding of contract. If the required funding percentage is not met, POS will notify provider. If provider is unable to serve identified percentage of TANF families, funding source may have to be readjusted to ensure that proper percentage of TANF families are served</p>

State of Hawai'i  
Department of Human Services  
Corrective Action Plans for Findings and Recommendations  
For the Fiscal Year Ended June 30, 2016

Finding	Division	Recommendation	Corrective Action Plans
			<p>by the contract.</p> <p>4. The Grant Management Unit (GMU) monitor has been trained and will monitor monthly to ensure that TANF eligible families equal or exceed percentage of TANF funding.</p> <p>5. Support Services Office Administrator will supervise POS and the GMU monitor to ensure that TANF eligible families and funding are monitored and TANF funding percentage is met.</p> <p><b>End Date:</b> On-going</p> <p><b>Responding Person:</b> Mona Maehara, Social Services Division Administrator, (808) 586-5701</p>
93-94, 106-108	BESSD	2016-11, 2015-15. Quarterly Reporting. This is an instance of non-compliance, a material weakness, and a repeat finding. We recommend developing policies and procedures for the reporting requirement. Specifically,	<p><b>Views of responsible officials:</b> The Department maintains that there are cut-off periods at many levels. However, because the Department is audited based on the data reported on the <i>quarterly</i> TANF Data Reports (TDRs) and <i>not the final</i></p>

State of Hawai'i  
Department of Human Services  
Corrective Action Plans for Findings and Recommendations  
For the Fiscal Year Ended June 30, 2016

Finding	Division	Recommendation	Corrective Action Plans
		consider including cut-off periods to ensure information reported is complete and accurate.	<p>TDR submitted at the end of the year, the likelihood of encountering discrepancies between data in the systems and the quarterly TDRs is greater. The Department will implement corrective action.</p> <p><b>Corrective Action Taken or Planned:</b> The TANF Data Extract Team, consisting of program specialists from the Financial Assistance Program (FAP) Office and the Employment and Training Program Office (ETPO), and IT programmers, will continue to review and address issues listed on the quarterly error reports received from HHS-ACF.</p> <p><b>End Date:</b> On-going</p> <p><b>Responding Person:</b> Paul Higa, Financial Assistance Program Administrator, (808) 586-5729 and Catherine Scardino, Employment and Training Program Office Administrator, (808) 586-7062</p>
95-96, 110-111	BESSD	2016-12, 2015-17. Maintaining Proper Case Documentation to Support Compliance with Child Support Non-Cooperation	<p><b>Views of responsible officials:</b> The Department agrees with the finding in that it must comply with federal regulations and require recipients to</p>

State of Hawai'i  
Department of Human Services  
Corrective Action Plans for Findings and Recommendations  
For the Fiscal Year Ended June 30, 2016

Finding	Division	Recommendation	Corrective Action Plans
		Requirement. This is an instance of non-compliance, a material weakness, and a repeat finding. We recommend more diligence in performing the required procedures and maintaining the appropriate documents to comply with its policy and procedures.	<p>cooperate in obtaining child support from an absent parent whose child is receiving public assistance benefits. The Department will implement corrective action.</p> <p><b><i>Corrective Action Taken or Planned:</i></b> Currently the Statewide Branch is being reminded to continually monitor their eligibility staff for compliance with the child support requirements. The Financial Assistance Program (FAP) is requesting a HAWI system modification to alert the eligibility staff that a recipient has not complied with the child support requirements. The non-compliance alert from the Child Support Enforcement Agency (CSEA) to HAWI disappears after 30 days and there are no consequences if eligibility staff fails to take appropriate action. The modification request will remove the automated deletion of the alert and de-authorize benefit issuance for the case if appropriate action is not taken by the HAWI monthly processing deadline. This modification will require</p>

State of Hawai'i  
Department of Human Services  
Corrective Action Plans for Findings and Recommendations  
For the Fiscal Year Ended June 30, 2016

Finding	Division	Recommendation	Corrective Action Plans
			<p>eligibility staff to take prompt action to ensure compliance with the child support requirements.</p> <p>The long term resolution will be the automatic monitoring of a recipient's compliance with the child support requirements through direct interface with CSEA. The Department is in the process of procuring a vendor to develop a computer system that will replace HAWI as the eligibility processing and benefits authorization system for TANF and other financial assistance programs. Currently, the new system only has the capability to process Medicaid eligibility.</p> <p><b>End Date:</b> December 2018</p> <p><b>Responding Person:</b> Paul Higa, Financial Assistance Program Administrator, (808) 586-5729</p>
97-98, 112-115	BESSD	2016-13, 2015-18. Improve the Monitoring of Required Work Participation Hours. This is an instance of non-compliance, a material weakness, and a repeat finding. We recommend more diligence applying the	<p><b>Views of responsible officials:</b></p> <p>The Department does not agree with the first bullet item above as both participants indicated are from the same TANF household. Two-parent households, where both parents are work eligible</p>

State of Hawai'i  
Department of Human Services  
Corrective Action Plans for Findings and Recommendations  
For the Fiscal Year Ended June 30, 2016

Finding	Division	Recommendation	Corrective Action Plans
		policies and procedures in place to comply with the Work Verification Plan.	<p>individuals, determine which parent will participate with the TANF work program. The participating parent is expected to meet the minimum work participation requirements for the household (i.e. overall 35 hours of work activity hours per week, of which 30 hours are from core work activities). In this case, one parent was correctly exempted from participating with the TANF work program as an essential person. The Department will implement corrective action.</p> <p><b><i>Corrective Action Taken or Planned:</i></b></p> <ol style="list-style-type: none"> <li>1. The Employment and Training Program Office (ETPO) will conduct periodic reviews of each First-To-Work (FTW) unit's selection pool in the HANA system to ensure all referred parents have their participation activated timely. Activation within thirty (30) days from the date of referral is considered timely. The overseeing administrator will be notified to take</li> </ol>

State of Hawai'i  
Department of Human Services  
Corrective Action Plans for Findings and Recommendations  
For the Fiscal Year Ended June 30, 2016

Finding	Division	Recommendation	Corrective Action Plans
			<p>appropriate action if a unit is not timely.</p> <p>2. ETPO will work with the Department's Research Office to develop a monthly report that captures all TANF recipient parents who were determined to be work eligible individuals but have no active FTW case in the HANA system. Appropriate action will be taken such as, but not limited to:</p> <ul style="list-style-type: none"> <li>▪ Making necessary corrections to the TDR instructions for the IT programmers;</li> <li>▪ Correcting any error codes in the HAWI system that may have affected the individual's referral to FTW; and</li> <li>▪ Notifying the FTW unit (and the overseeing administrator) if the individual was referred but the participation has not be activated yet in the HANA system.</li> </ul>



State of Hawai'i  
Department of Human Services  
Corrective Action Plans for Findings and Recommendations  
For the Fiscal Year Ended June 30, 2016

Finding	Division	Recommendation	Corrective Action Plans
			<p>3. Although miscalculation of hours is a repeat finding from the previous audit year, the number of instances decreased significantly. ETPO will continue to conduct Work Verification Plan (WVP) audits as described in FTW Operational Procedure 15-104. The FTW units will continue to receive reports with findings at the conclusion of each audit.</p> <p>The unit supervisors are instructed to review the findings, address concerns with staff, and to make corrections. The overseeing administrators are required to develop a Corrective/Preventive Action Plan (CPAP) for any unit with a high error rate or have the same type of errors found in multiple audits.</p> <p>ETPO will analyze the outcomes of the CPAP to determine its effectiveness and make any necessary adjustments to the template.</p>

State of Hawai'i  
Department of Human Services  
Corrective Action Plans for Findings and Recommendations  
For the Fiscal Year Ended June 30, 2016

Finding	Division	Recommendation	Corrective Action Plans
			<p><b>End Date:</b> On-going</p> <p><b>Responding Person:</b> Catherine Scardino, Employment and Training Program Office Administrator, (808) 586-7062</p>
99-100	MQD	2016-14. Maintaining Proper Case Documentation to Support Eligibility Determinations. This is an instance of known questioned costs when likely questioned costs exceed \$25,000. We recommend more diligence in complying with the policies and procedures in place to ensure compliance with the Federal requirements.	<p><b>Views of responsible officials:</b> While we agree that continued diligence is needed to ensure that policies and procedures are followed, it should be noted that it is not required in all circumstances to have the asset documentation if the self-attested reported assets are not questionable. Thus, the specific case identified would be need to be re-reviewed by the Department in order to determine if MQD agrees with the finding or not. The Department will implement corrective action.</p> <p><b>Corrective Action Taken or Planned:</b> Effective October 01, 2013, the Division implemented the new electronic eligibility system, KOLEA, that allows for online submission of applications and document uploads. Applications that are submitted through KOLEA are stored in the database rather</p>

State of Hawai'i  
Department of Human Services  
Corrective Action Plans for Findings and Recommendations  
For the Fiscal Year Ended June 30, 2016

Finding	Division	Recommendation	Corrective Action Plans
			<p>than through hard-copy. Also, the Affordable Care Act allows applicants to self-declare assets. If the declaration is questionable, MQD would request hard copy documentation to be provided by the applicant.</p> <p>MQD continues to review policies and procedures with staff and has already made significant improvements. Effective January 2015, MQD implemented the Electronic Case Management (ECM) system where all documents pertaining to a case are scanned. All supervisory staff have been instructed and reminded to properly maintain case files assigned to their units electronically. Staff have also received periodic reminders to scan and upload all necessary documentation into all case files as appropriate.</p> <p>The Training Office is now staffed and the Eligibility Branch staff are scheduled to receive training in the non-MAGI administrative rules in the upcoming months which will include a module for</p>

State of Hawai'i  
Department of Human Services  
Corrective Action Plans for Findings and Recommendations  
For the Fiscal Year Ended June 30, 2016

Finding	Division	Recommendation	Corrective Action Plans
			<p>documentation requirements needed for asset verification. Training will also be scheduled for MAGI rules, operations and procedures, and KOLEA system training.</p> <p>MQD's Eligibility Branch will be expanding monthly case management reporting with supervisors and staff to ascertain and ensure staff are in compliance with existing policies and procedures. Finally, MQD is in the procurement process to contract for Asset Verification vendor which should also improve the asset verification process and documentation.</p> <p><b>End Date:</b> Training - On-going; Asset Verification Vendor – December 2017</p> <p><b>Responding Person:</b> Gail Omura, MQD Eligibility Branch Administrator – TA, (808) 587-7291</p>
101-102, 102-103	BESSD	2016-15, 2015-13. Maintaining Proper Case Documentation to Support Eligibility Determinations. This is an instance of known questioned costs when likely	<p><b>Views of responsible officials:</b> The Department agrees with the finding and will implement corrective action.</p> <p><b>Corrective Action Taken or</b></p>

State of Hawai'i  
Department of Human Services  
Corrective Action Plans for Findings and Recommendations  
For the Fiscal Year Ended June 30, 2016

Finding	Division	Recommendation	Corrective Action Plans
		questioned costs exceed \$25,000 and a repeat finding. We recommend more diligence in complying with the policies and procedures in place.	<p><b>Planned:</b> We have been continually reinforcing the need to use the correct verification codes and habitually refer to policy clarifications regarding the proper input of verification codes to reflect the documents in the case (hard copy, previous case verification, etc.). We will continue to be diligent in reminding staff to continue to properly document cases and to check all available interfaces to ensure all sources of income are identified and properly budgeted. We will also work with our Staff Development Office to ensure new hires receive training in these areas and understand the importance of proper and thorough case documentation.</p> <p><b>End Date:</b> On-going</p> <p><b>Responding Person:</b> Elisa Furtado-Fischer, Financial Assistance Program Specialist, (808) 586-5713</p>
103-104, 123-124	BESSD	2016-16, 2015-23. Eligibility Determination and Benefit Calculation. This is an instance of known questioned costs when likely questioned costs exceed \$25,000 and a	<p><b>Views of responsible officials:</b> The Department agrees with the finding and will implement corrective action.</p> <p><b>Corrective Action Taken or</b></p>

State of Hawai'i  
Department of Human Services  
Corrective Action Plans for Findings and Recommendations  
For the Fiscal Year Ended June 30, 2016

Finding	Division	Recommendation	Corrective Action Plans
		repeat finding. We recommend more diligence in complying with the policies and procedures in place to ensure compliance with Federal requirements.	<p><b>Planned:</b> The importance of following up on alerts timely and utilizing proper coding has been discussed with the staff. The Section Administrator has reported that the Processing Center is being proactive and is utilizing the Quality Maintenance Workers (QMW) to review 15 cases per month to identify errors and taking corrective actions if necessary. When errors are cited by the QMW, discussions are conducted with the workers to reduce errors.</p> <p><b>End Date:</b> On-going</p> <p><b>Responding Person:</b> Pamela Higa, Supplemental Nutrition and Assistance Program Administrator, (808) 586-5722</p>
105-106, 116-117	BESSD	2016-17, 2015-19. Maintaining Proper Case Documentation to Support Eligibility Determinations. This is an instance of material weakness and is a repeat finding. We recommend more diligence in complying with the policies and procedures in place to ensure compliance with the Federal requirements.	<p><b>Views of responsible officials:</b> The Department agrees with the finding and will implement corrective action.</p> <p><b>Corrective Action Taken or Planned:</b> The Low Income Home Energy Assistance Program (LIHEAP) Coordinator will ensure that the policies and procedures for LIHEAP is followed and adhered to with</p>

State of Hawai'i  
Department of Human Services  
Corrective Action Plans for Findings and Recommendations  
For the Fiscal Year Ended June 30, 2016

Finding	Division	Recommendation	Corrective Action Plans
			<p>the following actions:</p> <ol style="list-style-type: none"> <li>1. Categorical eligibility and income determination will be simplified to decrease the possibility of errors in calculation.</li> <li>2. Training sessions to stress income determination in exercises. Contractors to reinforce and complete their own training of staff. The importance of accuracy is always stressed and is also a factor used to determine eligibility for Contractor bonuses as an incentive to be more accurate.</li> <li>3. Reminder will be issued at training to have all parties be sure to review and check for input errors.</li> <li>4. Requiring in 2017 that the final step will be to do a screen print, review it, and file it in the case. This is an additional step in reviewing actions to prevent errors.</li> </ol> <p><b>End Date:</b> On-going</p>

State of Hawai'i  
Department of Human Services  
Corrective Action Plans for Findings and Recommendations  
For the Fiscal Year Ended June 30, 2016

Finding	Division	Recommendation	Corrective Action Plans
			<b>Responding Person:</b> Teri Ann Escudero, LIHEAP Coordinator, (808) 586-5734
107-108, 80-81	MQD	2016-18, 2015-03. Improve Controls Over Utilization, Fraud, and Accuracy of Medicaid Claims. This is an instance of significant deficiency and is a repeat finding. We recommend improving its post-payment review process by developing formal procedures to conduct regular post payment reviews on a sample of drug and non-drug claims to detect processing errors and identify ways to improve the claims processing system and procedures.	<p><b>Views of responsible officials:</b> The Department agrees with the finding that improvements to post-payment review of claims for drugs should be taken by developing formal policies and procedures of the fee-for-service Pharmacy Benefits Manager contractor however, the development of actions are already in place for post-utilization review of non-drug claims. The Department will implement corrective action.</p> <p><b>Corrective Action Taken or Planned:</b> For context, the FFS program claims account for less than 1 percent of the population, and less than 15% of overall expenditures for Hawaii's Medicaid program. Of note, MQD works with the Medicaid Integrity Contractor that does post-utilization claims review as well as with our Recovery Audit Contractor, that also does claims review of all claims (not just drug claims).</p>



State of Hawai'i  
Department of Human Services  
Corrective Action Plans for Findings and Recommendations  
For the Fiscal Year Ended June 30, 2016

Finding	Division	Recommendation	Corrective Action Plans
			<p>DHS MQD participates in the PERM claims review process, which is referenced in the Recommendations. The last review conducted in the three year cycle was in 2015. For Medicaid claims, MQD had an error rate of 1.4% compared to an 11% error rate nationally. Of the identified errors, only three were for prescription drug claims; all of them were due to missing one of the National Provider Identification (NPI) numbers. There had been major federal rule changes to the requirements regarding the use of NPIs that led to these types of errors.</p> <p>With the addition of the pharmacist, the Division will review reports and work with the fiscal agent and program integrity staff to review payments. The Division has, utilizing its Drug Utilization Review (DUR) committee, reviewed drug utilization data as well as reimbursements (e.g. claims reimbursing at \$500 or greater). One result has been the implementation of a drug formulary, and system edits, for dental prescriptions written by</p>

State of Hawai'i  
Department of Human Services  
Corrective Action Plans for Findings and Recommendations  
For the Fiscal Year Ended June 30, 2016

Finding	Division	Recommendation	Corrective Action Plans
			<p>Medicaid participating dentists or oral surgeons. The formulary imposes limits on certain drugs, such as narcotics.</p> <p>In addition the DUR Committee reviews, on a quarterly basis, top 25 Medicaid prescribers as well as expensive drug utilization by prescriber. Partnering with program integrity staff to review and generate similar reports for potential fraud and abuse is one of the next steps the Division will be implementing.</p> <p><b>End Date:</b> On-going</p> <p><b>Responding Person:</b> Leslie K. Tawata, MQD Clinical Standards Office Administrator, (808) 692-8116</p>
109-110, 128	MQD	2016-19, 2015-25. Monitor the Medicaid Drug Rebate Program. This is an instance of significant deficiency and is a repeat finding. We recommend establishing formal procedures to monitor its subcontractor activities of the drug rebate program.	<p><b>Views of responsible officials:</b> The Department agrees with the finding and will implement corrective action.</p> <p><b>Corrective Action Taken or Planned:</b> The hiring of the pharmacist in February 2016 was a major step for the Division to begin addressing previous audit findings regarding monitoring of the</p>

State of Hawai'i  
Department of Human Services  
Corrective Action Plans for Findings and Recommendations  
For the Fiscal Year Ended June 30, 2016

Finding	Division	Recommendation	Corrective Action Plans
			<p>Division's contractor. The Division has begun reviewing reports currently received and identifying reports that will be needed.</p> <p>In addition, development of policies and procedures for the drug rebate program is in process.</p> <p>An audit by the Office of Inspector General (OIG) was recently completed on Hawaii's Drug Rebate Program. The Division is awaiting the draft report but did find areas where the Division can implement changes to ensure health plans are providing complete drug utilization data to our contractor to ensure maximum receipt of rebates.</p> <p><b>End Date:</b> On-going.</p> <p><b>Responding Person:</b> Leslie K. Tawata, MQD Clinical Standards Office Administrator, (808) 692-8116</p>

State of Hawai'i  
Department of Human Services  
Corrective Action Plans for Findings and Recommendations  
For the Fiscal Year Ended June 30, 2016

Finding	Division	Recommendation	Corrective Action Plans
111	SSD	2016-20. Reporting. This is an instance of significant deficiency. We recommend more diligence in complying with the policies and procedures in place to ensure compliance with the Federal requirements.	<p><b><i>Views of Responsible Officials:</i></b> The Department agrees with the finding and the Social Services Division (SSD) will be much more diligent in ensuring that existing policies and procedures are followed to ensure compliance with Federal requirements. The Department will implement corrective action.</p> <p><b><i>Corrective Action Taken or Planned:</i></b> The following actions will be taken to correct this situation:</p> <ol style="list-style-type: none"> <li>1. Current policies and procedures, reporting requirements, and timelines will be reviewed with staff who are responsible for preparation and submission of the Social Services Block Grant (SSBG) pre- and post-expenditure reports.</li> <li>2. A tracking mechanism will be initiated within the SSD IT system to monitor data collection, tasks and assignments, and client information. It will also alert staff of pending</li> </ol>

State of Hawai'i  
Department of Human Services  
Corrective Action Plans for Findings and Recommendations  
For the Fiscal Year Ended June 30, 2016

Finding	Division	Recommendation	Corrective Action Plans
			<p>assignments and deadlines.</p> <p>3. Ensure that all staff, supervisors, Section Administrators, and Branch Administrators are aware and held accountable for their assigned responsibilities.</p> <p>4. The Grant Management Unit (GMU) monitor will be responsible to coordinate with staff and prepare, compile, and submit the SSBG pre- and post-expenditure reports on time.</p> <p>5. The SSD Support Services Office Administrator (SSOA) oversees the GMU and will ensure that the GMU staff perform their required functions. The SSOA will verify the accuracy of the report prior to submission and see that reports are submitted in a timely manner.</p> <p><b>End Date:</b> On-going</p>

State of Hawai'i  
Department of Human Services  
Corrective Action Plans for Findings and Recommendations  
For the Fiscal Year Ended June 30, 2016

Finding	Division	Recommendation	Corrective Action Plans
			<b><i>Responding Person:</i></b> Mona Maehara, Social Services Division Administrator, (808) 586-5701