

# Auditor's Summary

## Financial and Compliance Audit of the Department of Health

Financial Statements, Fiscal Year Ended June 30, 2017



PHOTO: OFFICE OF THE AUDITOR

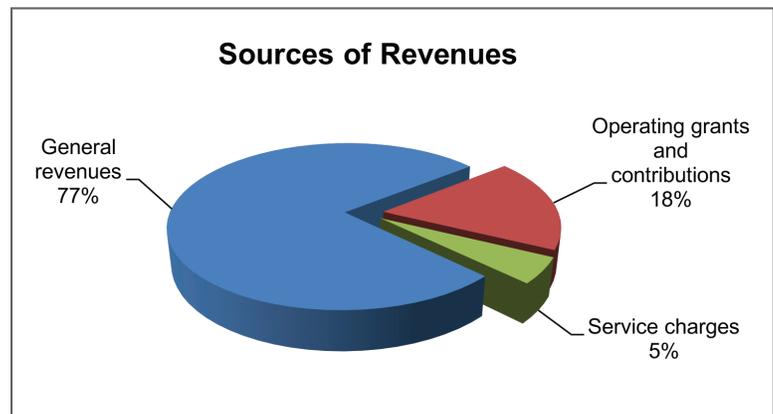
*THE PRIMARY PURPOSE* of the audit was to form an opinion on the fairness of the presentation of the financial statements for the Department of Health (DOH), as of and for the fiscal year ended June 30, 2017, and to comply with the requirements of Code of Federal Regulations, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, Title 2, Part 200 (Uniform Guidance), which established audit requirements for state and local governmental units that receive federal awards. The audit was conducted by KMH LLP.

### About the Department

DOH administers and oversees statewide personal health services, health promotion and disease prevention, mental health programs, monitoring of the environment, and the enforcement of environmental health laws. DOH administers federal grants to support the State's health services and programs. DOH is organized into four major administrations: Behavioral Health Services, Health Resources, Environmental Health, and General Administration.

### Financial Highlights

FOR THE FISCAL YEAR ended June 30, 2017, DOH reported total revenues of \$802 million and total expenses of \$739 million, resulting in a change in net position of \$63 million. Revenues consisted of \$616 million from general revenues, \$148 million from operating grants and contributions, and \$38 million from service charges.

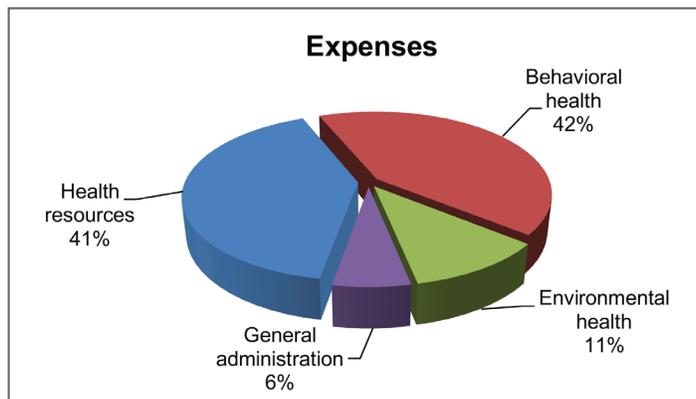


Total expenses of \$739 million consisted of \$289 million for health resources, \$314 million for behavioral health, \$90 million for environmental health, and \$46 million for general administration.

As of June 30, 2017, total assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources by \$1.02 billion.

Total assets and deferred outflows of resources of \$1.17 billion were comprised of cash of \$520 million, receivables of \$85 million, loans receivable of \$482 million, deferred outflows of resources of \$2 million, and net capital assets of \$85 million.

Total liabilities and deferred inflows of resources totaled \$150 million. DOH's net position of \$1.02 billion was comprised of a restricted amount of \$772 million, of which \$712 million was for loans, an unrestricted amount of \$168 million, and net investment of capital assets of \$85 million.



## Auditors' Opinions

**DOH RECEIVED AN UNMODIFIED OPINION** that the financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. DOH received a qualified opinion on its compliance with major federal programs in accordance with the *Uniform Guidance*.

## Findings

**THERE WERE TWO MATERIAL WEAKNESSES** and one significant deficiency in internal control over financial reporting that are required to be reported under *Government Auditing Standards*.

### Material Weaknesses (2)

- Audit adjustments were recorded to beginning net position related to cigarette tax revenues and the deposit beverage receivable because of ineffective management review.
- Audit adjustments made to record additional vouchers payable were not identified by management.

### Significant Deficiency

- The Deposit Beverage Container Program is susceptible to fraud because of an overreliance on self-reporting by distributors and redemption centers.

**THERE WERE SIX MATERIAL WEAKNESSES** and four significant deficiencies in internal control over compliance in accordance with the *Uniform Guidance*.

### Material Weaknesses (6)

- Failure to submit federal financial reports timely (3).
- Failure to follow subrecipient monitoring policy to ensure subrecipient compliance with federal requirements (2).
- Federal funds were not disbursed in a timely manner to comply with federal regulations.

### Significant Deficiencies (4)

- Lack of monitoring the level of non-Federal funding to meet the level of effort requirement.
- Federal funds used to pay terminated employees' accrued leave were charged as direct program costs.
- Lack of documentation of the Excluded Parties Listing Search to ensure vendor eligibility.
- Inaccurate expenditure amounts reported in the Schedule of Expenditures and Federal Awards.

For the complete report and financial statements visit our website at:  
[http://files.hawaii.gov/auditor/Reports/2017\\_Audit/DOH2017.pdf](http://files.hawaii.gov/auditor/Reports/2017_Audit/DOH2017.pdf)