

Auditor's Summary

Financial and Compliance Audit of the Department of Human Services

Financial Statements, Fiscal Year Ended June 30, 2018



PHOTO: DEPARTMENT OF HUMAN SERVICES

DHS Director Pankaj Bhanot and Rep. Dee Morikawa join the DHS Division of Vocational Rehabilitation for their annual white cane walk to raise awareness of the importance of the cane for those who are blind, visually impaired and deaf and blind.

THE PRIMARY PURPOSE of the audit was to form an opinion on the fairness of the presentation of the financial statements for the Department of Human Services (DHS), as of and for the fiscal year ended June 30, 2018, and to comply 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), which established audit requirements for state and local governmental units that receive federal awards. The audit was conducted by KMH LLP.

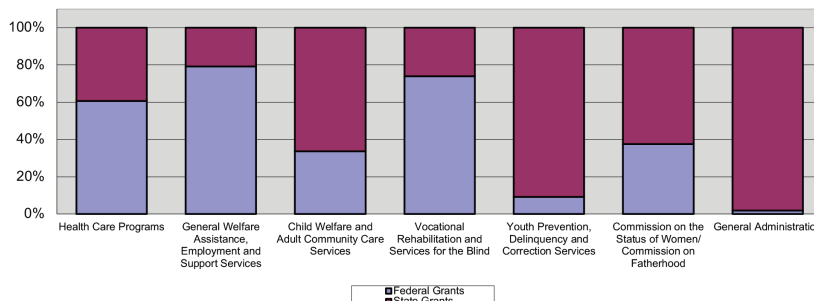
About the Department

DHS' 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. DHS' activities and attached programs include Health Care Programs; General Welfare Assistance, Employment and Support Services; Child Welfare and Adult Community Care Services; Vocational Rehabilitation and Services for the Blind; Youth Prevention, Delinquency and Correction Services; General Administration; Commission on the Status of Women; and Commission on Fatherhood.

Financial Highlights

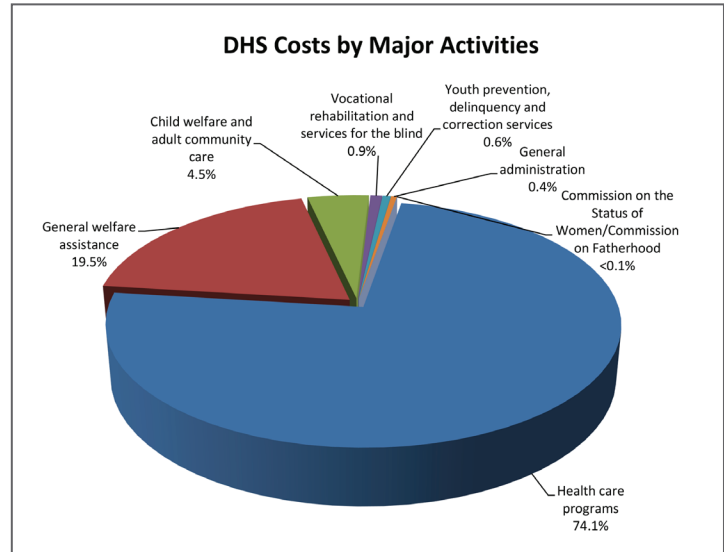
FOR THE FISCAL YEAR ended June 30, 2018, DHS reported total revenues of \$3.72 billion and total expenses of \$3.63 billion. Revenues consisted of \$1.39 billion of State allotments, net of lapsed amounts plus nonimposed employee fringe benefits, and \$2.33 billion in program revenues, which consist of operating grants from the federal government. Revenues from these federal grants paid for 64.3 percent of the cost of DHS' activities.

DHS Revenues by Type, FY 2018



Health care and general welfare assistance programs comprised 74.1 and 19.5 percent, respectively, of the total cost. The following chart presents each major activity as a percent of the total cost of all DHS activities.

As of June 30, 2018, DHS' total assets of \$535 million were comprised of cash of \$355 million, receivables of \$100 million, and net capital assets of \$80 million. Total liabilities of \$243 million were comprised of vouchers payable of \$25 million, accrued wages and employee benefits of \$15 million, amounts due to the State general fund of \$96 million, accrued medical assistance payable of \$93 million, and accrued compensated absences of \$14 million.



Auditors' Opinions

DHS RECEIVED AN UNMODIFIED OPINION that the financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. DHS received a qualified opinion on its compliance with requirements that could have a direct and material effect on its major federal programs, except for the Children's Health Insurance Program, CCDF Cluster, and Adoption Assistance Program, which received an unmodified opinion in accordance with the *Uniform Guidance*.

Findings

THERE WAS ONE SIGNIFICANT DEFICIENCY in internal control over financial reporting that is required to be reported under *Government Auditing Standards*. There were 14 material weaknesses and three significant deficiencies in internal control over compliance that are required to be reported in accordance with the *Uniform Guidance* and *Government Auditing Standards*.

Material Weaknesses (14)

- Lack of proper documentation to support eligibility determinations and actions taken related to benefits (3);
- Lack of proper documentation to support program participant benefits;
- Lack of proper documentation to support revalidation of provider eligibility;
- Eligibility determinations were not processed or not completed in a timely manner (2);
- Failure to complete the participant's individualized plan for employment or obtain approval;
- Inaccurate federal data reporting (2);
- Inadequate monitoring of subrecipients;
- Lack of monitoring for earmarked funds;
- Lack of proper documentation to indicate whether appropriate action was taken regarding non-cooperating participants; and
- Lack of approval of individualized plans for employment of participants to receive benefit payments.

Significant Deficiencies (4)

- DHS did not properly accrue several payable accounts;
- Lack of policies and procedures for compiling the Schedule of Expenditures of Federal Awards;
- Lack of documentation to support participant monthly benefit payments; and
- Failure to ensure contractor was not federally suspended or debarred.

For the complete report and financial statements visit our website at:
http://files.hawaii.gov/auditor/Reports/2018_Audit/DHS2018.pdf