

**Department of Human Services
State of Hawaii**

Financial Statements
For the Year Ended June 30, 2020
and
Independent Auditor's Report



March 15, 2021

Mr. Leslie 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, 2020. 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, 2020, 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 as to whether the financial statements of the DHS are fairly presented, in all material respects, in accordance with U.S. generally accepted accounting principles.
2. To report on the DHS's internal control over financial reporting and compliance with certain provisions of laws, regulations, contracts, and grant agreements, including applicable provisions of the Hawaii Public Procurement Code (Chapter 103D of the Hawaii Revised Statutes) and procurement rules, directives and circulars, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.
3. To provide a basis for an opinion as to whether the DHS has complied with compliance requirements described in the Office of Management and Budget (OMB) Compliance Supplement that could have a direct and material effect on each of its major federal programs, including whether the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.
4. To report on the internal control over compliance of the DHS for the purpose of expressing an opinion on compliance with requirements of laws, regulations, contracts and grants that could have a direct and material effect on each major federal program in accordance with OMB's Uniform Guidance.

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, 2020.

ORGANIZATION OF THE REPORT

This report is presented in six parts as follows:

- Part I – Financial section
- Part II – Report on internal control over financial reporting and compliance
- Part III – Report on compliance with requirements applicable to each major program and internal control over compliance
- Part IV – Schedule of findings and questioned costs
- Part V – 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

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PART I
FINANCIAL SECTION



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, 2020, 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, 2020, 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.

Emphasis of Matter

As discussed in Note 1, the financial statements of the DHS are intended to present the financial position, the changes in financial position, and budgetary comparisons, of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Hawaii that is attributable to the transactions of the DHS. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2020, the changes in financial position, and budgetary comparisons, for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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 Budget, Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare

the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The schedule of expenditures of federal awards has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2021 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of DHS's 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 15, 2021

Department of Human Services
State of Hawaii
Management's Discussion and Analysis
June 30, 2020

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, 2020. 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's Discussion and Analysis (continued)
June 30, 2020

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's Discussion and Analysis (continued)
June 30, 2020

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, 2020 and 2019.

Condensed Statement of Net Position

	2020	2019
Current assets	\$ 549,422,115	\$ 522,635,885
Capital assets, net	68,327,465	70,344,914
Total assets	\$ 617,749,580	\$ 592,980,799
Current liabilities	\$ 391,005,603	\$ 319,840,735
Non-current liabilities	8,880,836	8,036,503
Total liabilities	399,886,439	327,877,238
Net Position		
Invested in capital assets	68,327,465	70,344,914
Restricted	-	-
Unrestricted	149,535,676	194,758,647
Total net position	217,863,141	265,103,561
Total liabilities and net position	\$ 617,749,580	\$ 592,980,799

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, 2020, the combined net position of the DHS decreased by approximately \$47 million.

The unrestricted net position of the DHS was approximately \$149.5 million as of June 30, 2020. The largest liabilities as of June 30, 2020, are the federal expenditures incurred but not yet reimbursed by the federal government as of June 30, 2020 and the estimated amount of medical assistance service provided as of June 30, 2020, for which the related claims and capitation fees will be processed and paid subsequent to June 30, 2020. For the unreimbursed federal expenses as of June 30, 2020 of \$149 million, the majority is for the medical assistance program, of which \$86.8 million will be received after June 30, 2020. Of the estimated \$119.5 million of medical assistance payable, the State's share of these costs is approximately \$55 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, 2020, 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, 2020.

The DHS reported a total of approximately \$68.3 million in net position invested in capital assets as of June 30, 2020. Although the DHS is not the legal owner of the state buildings that are reported

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Management's Discussion and Analysis (continued)
June 30, 2020

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, 2020.

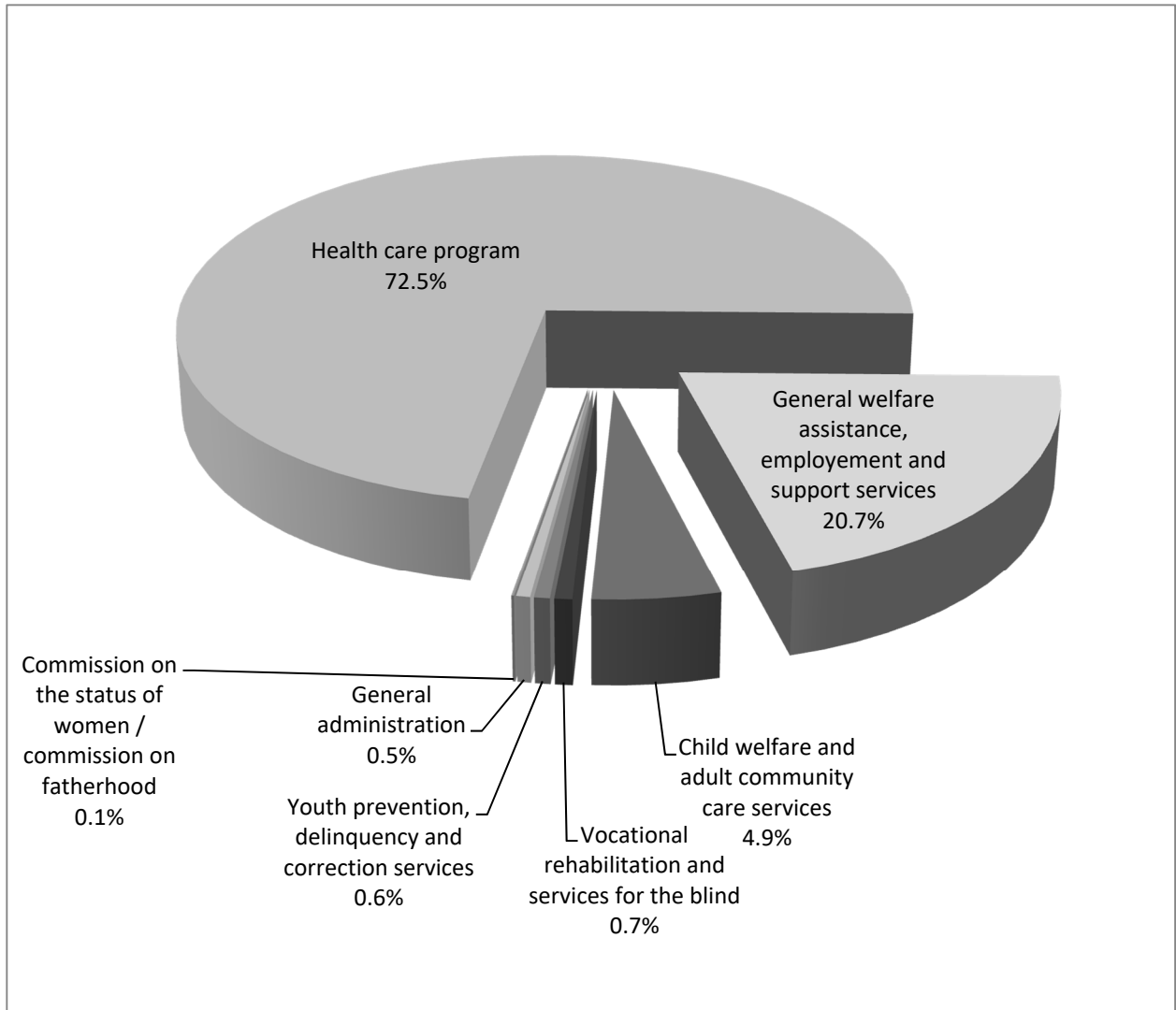
The changes in the net position of the DHS from governmental activities are summarized below. The DHS directs its resources towards assisting people to meet their basic needs for food, shelter, medical care and other essentials for daily living. As such, the DHS does not conduct business-type activities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

	2020	2019	Percent Change
Revenues:			
Program revenues	\$ 2,466,131,750	\$ 2,211,525,810	11.51%
General revenues	1,281,537,659	1,208,098,651	6.08%
Total revenues	<u>3,747,669,409</u>	<u>3,419,624,461</u>	9.59%
Expenses:			
Health care programs	2,758,194,511	2,517,247,847	9.57%
General welfare assistance, employment and support services	786,935,217	709,011,947	10.99%
Child welfare and adult community care services	186,157,590	173,441,630	7.33%
Vocational rehabilitation and services for the blind	25,236,528	26,218,463	(3.75%)
Youth prevention, delinquency and correction services	23,862,013	21,755,168	9.68%
General administration	20,167,077	16,083,928	25.39%
Commission on the status of women/ commission on fatherhood	244,493	211,125	15.80%
Total expenses	<u>3,800,797,429</u>	<u>3,463,970,108</u>	9.72%
Change in net position, before transfers	<u>\$ (53,128,020)</u>	<u>\$ (44,345,647)</u>	

Department of Human Services
State of Hawaii
Management's Discussion and Analysis (continued)
June 30, 2020

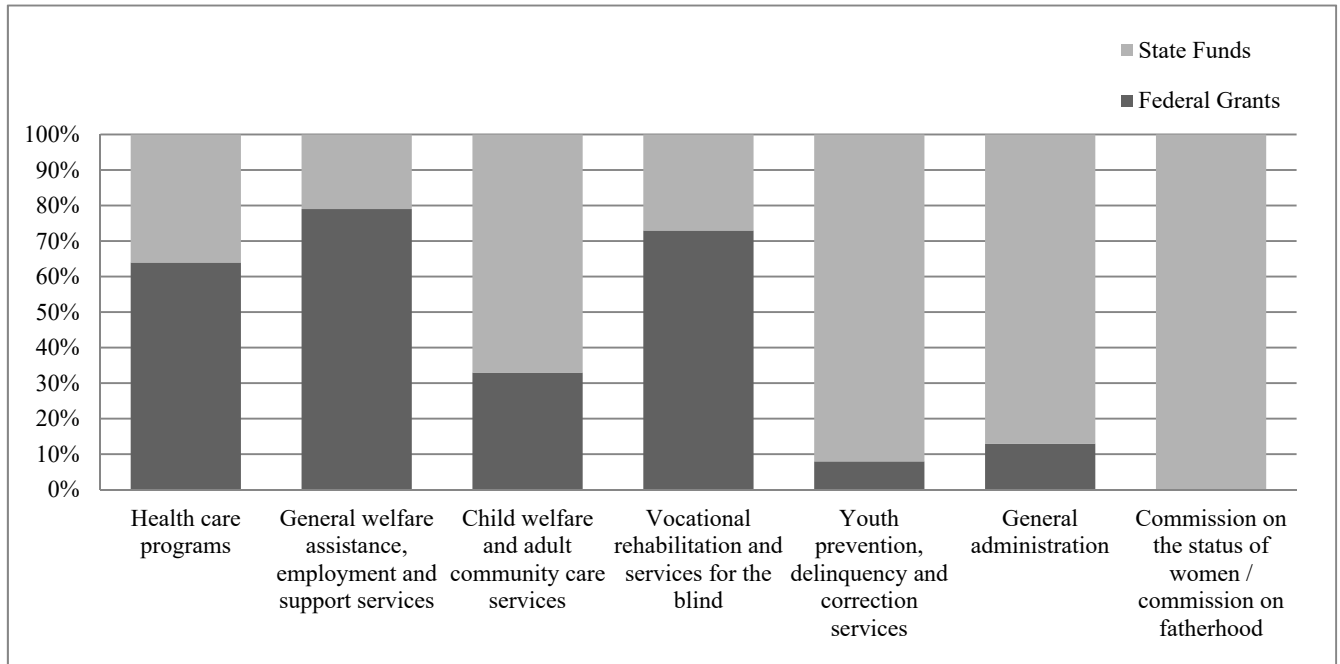
The total cost of all programs and services was approximately \$3.8 billion, a 9.72% increase from the prior fiscal year. Health care and general welfare assistance programs comprised 72.5% and 20.7%, respectively, of the total costs. The following chart presents each major activity as a percent of the total cost of all DHS activities:



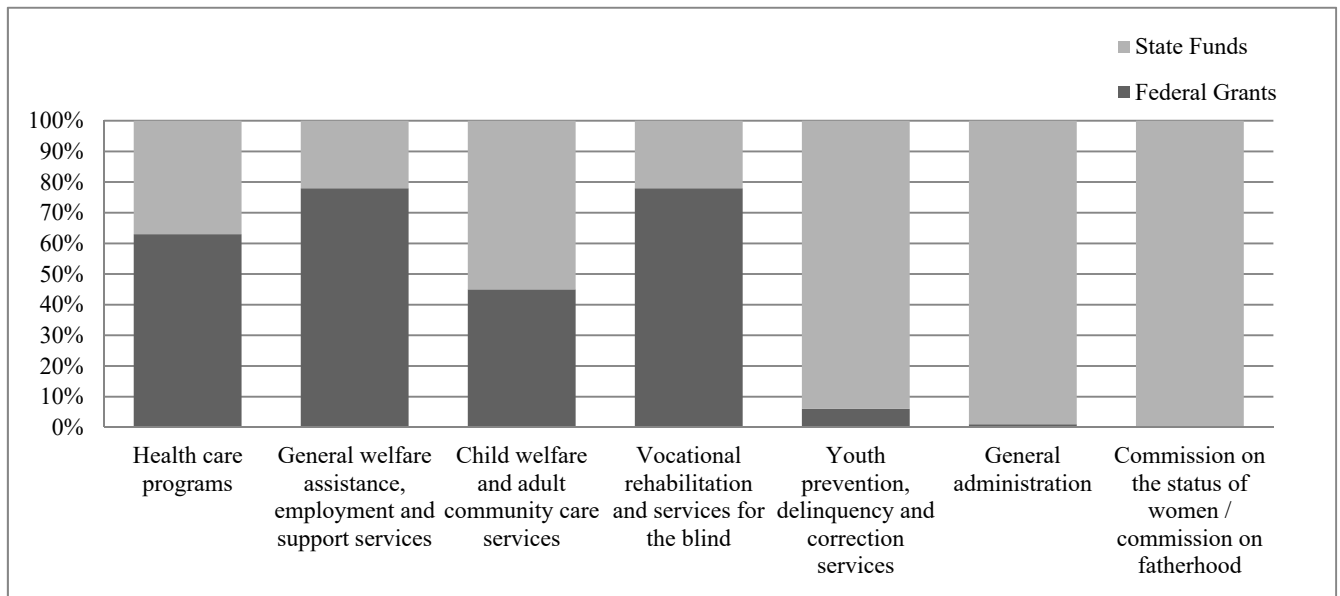
Department of Human Services
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 Management's Discussion and Analysis (continued)
 June 30, 2020

Program revenues consist primarily of operating grants from the federal government. Revenues from these federal grants paid for 64.88% 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, 2020 and 2019:

Fiscal Year 2020



Fiscal Year 2019



Department of Human Services
State of Hawaii
Management's Discussion and Analysis (continued)
June 30, 2020

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 \$354.2 million over the prior fiscal year. This increase is primarily related to an increase in reimbursement of benefits for the health care program.

At June 30, 2020, the total governmental fund balance of the DHS consisted of committed and assigned fund balance of approximately \$3.6 million, and \$159.8 million, respectively. The committed fund balance of the special revenue funds totaling \$3.6 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, 2020 and 2019:

	<u>2020</u>	<u>2019</u>	<u>Percent Change</u>
Revenues:			
State allotted appropriations	\$ 1,244,938,188	\$ 1,178,941,748	5.60%
Intergovernmental revenues	2,466,131,750	2,211,525,810	11.51%
Non-imposed employee fringe benefits	36,599,471	29,156,903	25.53%
Total	<u>\$ 3,747,669,409</u>	<u>\$ 3,419,624,461</u>	9.59%

Department of Human Services
State of Hawaii
Management's Discussion and Analysis (continued)
June 30, 2020

	<u>2020</u>	<u>2019</u>	<u>Percent Change</u>
Expenditures:			
Health care programs	\$ 2,751,256,398	\$ 2,492,343,103	10.39%
General welfare assistance, employment and support services	785,595,937	708,371,701	10.90%
Child welfare and adult community care services	185,506,044	173,271,282	7.06%
Vocational rehabilitation and services for the blind	25,872,012	26,187,506	(1.20%)
Youth prevention, delinquency and correction services	22,927,992	21,131,587	8.50%
General administration	20,066,896	15,797,914	27.02%
Commission on the status of women/ commission on fatherhood	226,998	196,768	15.36%
Total	<u>\$ 3,791,452,277</u>	<u>\$ 3,437,299,861</u>	10.30%

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:

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual on Budgetary Basis</u>	<u>Variance Favorable (Unfavorable)</u>
Health care programs	\$ 1,059,603,412	\$ 1,050,633,146	\$ 973,836,806	\$ 76,796,340
General welfare assistance, employment and support services	152,554,637	166,993,637	154,531,611	12,462,026
Child welfare and adult community care services	111,400,991	113,589,021	111,240,357	2,348,664
Youth prevention, delinquency and correction services	19,360,230	19,887,456	18,272,128	1,615,328
General administration	11,071,603	11,963,603	11,926,695	36,908
Vocational rehabilitation and services for the blind	4,862,420	4,862,420	4,838,634	23,786
Commission on the status of women / commission on fatherhood	174,035	174,035	173,690	345
	<u>\$ 1,359,027,328</u>	<u>\$ 1,368,103,318</u>	<u>\$ 1,274,819,921</u>	<u>\$ 93,283,397</u>

The differences between the original and final budget for the individual programs is mainly due to the transfer of funds to the Homeless Program.

The majority of the savings for the health care programs were due to the increase in federal participation percentage and the use of provider tax funding. Because the additional sources of

Department of Human Services
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Management's Discussion and Analysis (continued)
June 30, 2020

funding, the program did not utilize all the budgeted funds. The amounts expended in comparison to the amount budgeted appears favorable.

CAPITAL ASSETS

As of June 30, 2020 and 2019, the cost basis of capital assets, net of accumulated depreciation, used by the DHS are presented in the table below. Approximately \$9.2 million of capital assets were added in the fiscal year ended June 30, 2020. The major increase in capital assets is due to the recording of buildings occupied by the department. Annual depreciation totaling approximately \$11.3 million decreased the net cost basis during the fiscal year ended June 30, 2020.

Capital Assets, Net of Depreciation

	2020	2019
Depreciable Assets:		
State office buildings and improvements	\$ 31,215,810	\$ 26,762,050
Building and improvements for the Office of Youth Services	11,413,450	12,255,377
Intangible assets - software	24,252,075	30,773,999
Total buildings and improvements	66,881,335	69,791,426
Furniture, equipment and vehicles	1,446,129	553,487
Non-depreciable Assets:		
Land	1	1
Total	\$ 68,327,465	\$ 70,344,914

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.

ECONOMIC FACTORS (Fiscal Year 2020)

Average monthly financial assistance caseload increased by 4% from state fiscal year 2019 to 2020, from 10,489 to 10,905 cases. Last year experienced a 6% decrease.

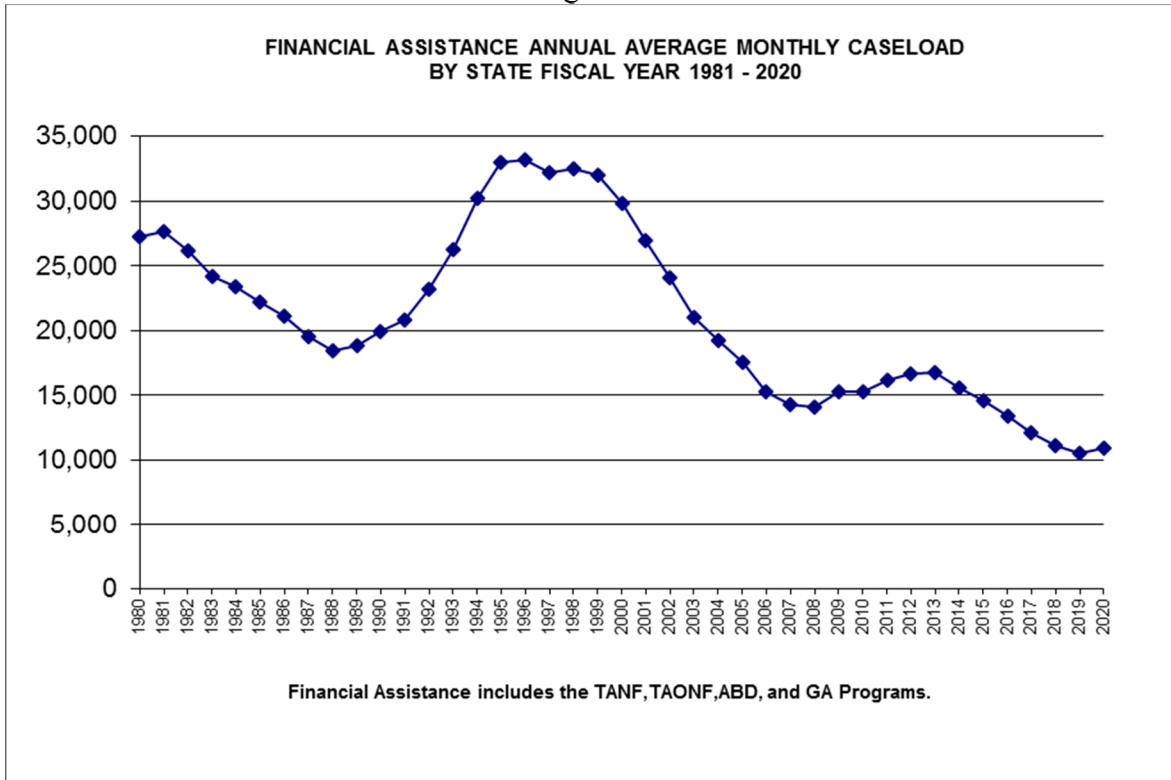
Average monthly number of individuals in Hawaii receiving financial assistance increased by 6% from state fiscal year 2019 to 2020, from 18,292 to 19,341 individuals. Last year experienced an 8% decrease.

The average monthly number of individuals in Hawaii receiving Supplemental Nutrition Assistance Program (SNAP), formerly known as Food Stamp Program, increased by 1%, from 158,628 to 159,734 individuals. Last year experienced a 4% decrease.

Department of Human Services
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 Management's Discussion and Analysis (continued)
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Over the past fiscal year, the number of individuals receiving SNAP benefits and financial assistance in Hawaii continued its downward trend from the start of the state fiscal year until March 2020 when caseloads exploded upward due to the COVID-19 pandemic and its effect on the economy. Changes in policy at the national level in response to the COVID-19 pandemic will result in more individuals eligible for SNAP benefits in the future.

Figure 1.



Department of Human Services
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Management's Discussion and Analysis (continued)
June 30, 2020

Figure 2.

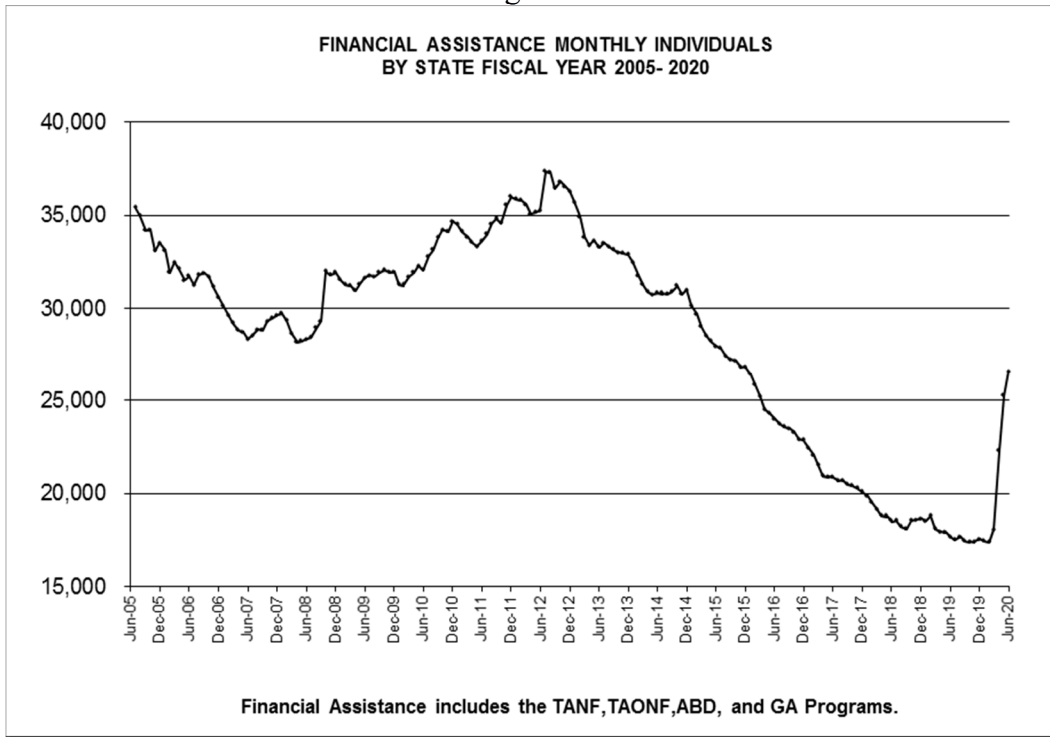
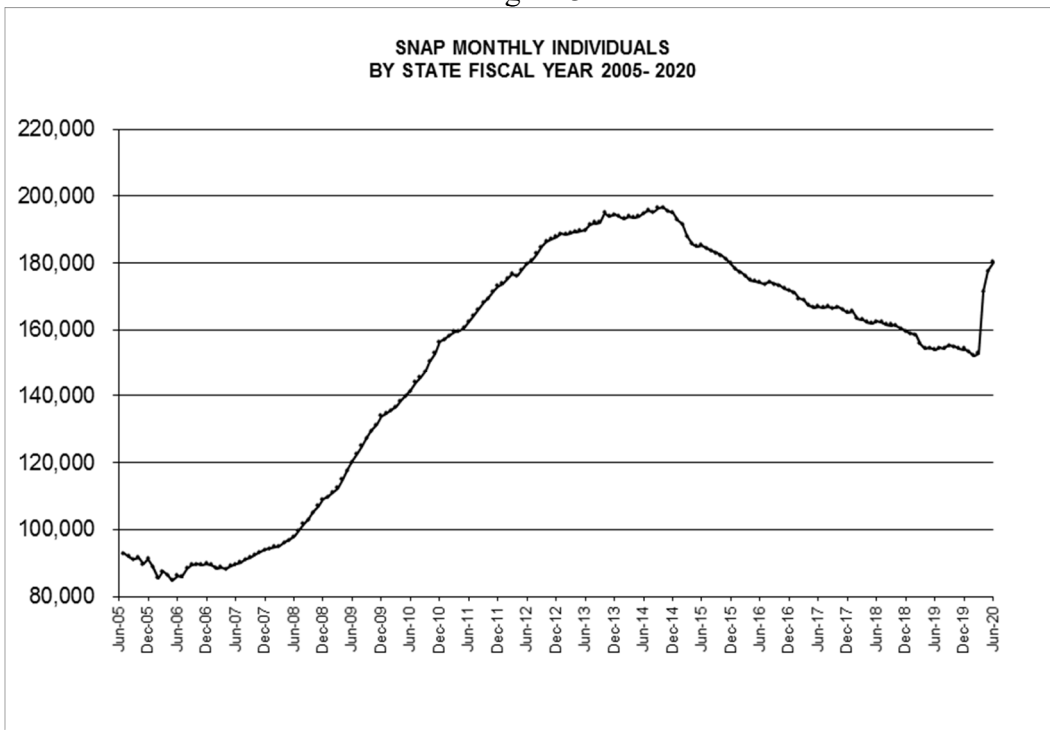


Figure 3.



Department of Human Services
State of Hawaii
Statement of Net Position
June 30, 2020

ASSETS

Cash and cash equivalents	\$	323,833,765
Receivables, net		106,178,028
Due from other governments		119,410,322
		549,422,115
Total current assets		549,422,115
Capital assets, net of accumulated depreciation		68,327,465
		68,327,465
Total assets	\$	617,749,580

LIABILITIES

Vouchers payable	\$	25,582,928
Accrued wages and employee benefits payable		48,424,308
Due to State General Fund		192,556,995
Accrued Medical Assistance payable		119,453,372
Accrued compensated absences		4,988,000
		391,005,603
Total current liabilities		391,005,603
Accrued compensated absences, less current portion		8,880,836
		8,880,836
Total liabilities		399,886,439

NET POSITION

Net investment in capital assets		68,327,465
Unrestricted		149,535,676
		149,535,676
Total net position		217,863,141
Total liabilities and net position	\$	617,749,580

See accompanying notes to the basic financial statements.

Department of Human Services
State of Hawaii
Statement of Activities
for the year ended June 30, 2020

Functions/Programs	Expenses	Program Revenues		Net Expense and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
Governmental Activities:				
Health care programs	\$ 2,758,194,511	\$ -	\$ 1,763,548,824	\$ (994,645,687)
General welfare assistance, employment and support services	786,935,217	-	617,305,953	(169,629,264)
Child welfare and adult community care services	186,157,590	-	61,826,814	(124,330,776)
Vocational rehabilitation and services for the blind	25,236,528	-	18,855,437	(6,381,091)
Youth prevention, delinquency and correction services	23,862,013	-	1,921,318	(21,940,695)
General administration	20,167,077	-	2,673,200	(17,493,877)
Commission on the status of women / commission on fatherhood	244,493	-	204	(244,289)
Total governmental activities	<u>\$ 3,800,797,429</u>	<u>\$ -</u>	<u>\$ 2,466,131,750</u>	<u>\$ (1,334,665,679)</u>
General Revenues:				
				\$ 1,244,938,188
				36,599,471
				<u>1,281,537,659</u>
				5,887,600
				<u>(47,240,420)</u>
				<u>265,103,561</u>
				<u>\$ 217,863,141</u>

See accompanying notes to the basic financial statements.

Department of Human Services
State of Hawaii
Balance Sheet – Governmental Funds
June 30, 2020

	General	Med-QUEST Special Revenue Fund	Human Services Special Revenue Fund	Total
ASSETS:				
Cash and cash equivalents	\$ 224,448,056	\$ 37,171,253	\$ 62,214,456	\$ 323,833,765
Receivables, net	13,998,490	91,637,872	541,666	106,178,028
Due from other funds	187,809,416	-	-	187,809,416
Due from other governments	-	72,004,358	47,405,964	119,410,322
Total assets	<u>\$ 426,255,962</u>	<u>\$ 200,813,483</u>	<u>\$ 110,162,086</u>	<u>\$ 737,231,531</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Vouchers payable	\$ 12,235,271	\$ -	\$ 13,347,657	\$ 25,582,928
Accrued wages and employee benefits payable	6,593,875	10,992,402	30,838,031	48,424,308
Due to other funds	-	125,465,231	62,344,185	187,809,416
Due to State general fund	192,556,995	-	-	192,556,995
Accrued medical assistance payable	55,097,522	64,355,850	-	119,453,372
Total liabilities	<u>266,483,663</u>	<u>200,813,483</u>	<u>106,529,873</u>	<u>573,827,019</u>
FUND BALANCES:				
Committed	-	-	3,632,213	3,632,213
Assigned	159,772,299	-	-	159,772,299
Total fund balances	<u>159,772,299</u>	<u>-</u>	<u>3,632,213</u>	<u>163,404,512</u>
Total liabilities and fund balances	<u>\$ 426,255,962</u>	<u>\$ 200,813,483</u>	<u>\$ 110,162,086</u>	<u>\$ 737,231,531</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, 2020

Total fund balances - governmental funds		\$ 163,404,512
Amounts reported for governmental activities in the statement of net position are different because:		
(1) Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. These assets consist of:		
Governmental capital assets	277,101,369	
Less accumulated depreciation and amortization	<u>(208,773,904)</u>	
		68,327,465
(2) Accrued compensated absences are not due in the current period and, therefore, are not reported in the governmental funds.		
		<u>(13,868,836)</u>
Net Position of Governmental Activities		<u><u>\$ 217,863,141</u></u>

See accompanying notes to the basic financial statements.

Department of Human Services
State of Hawaii
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds
for the year ended June 30, 2020

	General	Med-QUEST Special Revenue Fund	Human Services Special Revenue Fund	Total
Revenues:				
State-allotted appropriations	\$ 1,244,938,188	\$ -	\$ -	\$ 1,244,938,188
Intergovernmental	-	1,763,548,824	702,582,926	2,466,131,750
Nonimposed employee fringe benefits	36,599,471	-	-	36,599,471
Total revenues	1,281,537,659	1,763,548,824	702,582,926	3,747,669,409
Expenditures:				
Health care programs	987,619,614	1,763,636,784	-	2,751,256,398
General welfare assistance employment and support services	167,037,149	-	618,558,788	785,595,937
Child welfare and adult community care services	122,777,341	-	62,728,703	185,506,044
Vocational rehabilitation and services for the blind	7,138,451	-	18,733,561	25,872,012
Youth prevention, delinquency and correction services	21,778,865	-	1,149,127	22,927,992
General administration	20,051,520	-	15,376	20,066,896
Commission on the status of women / commission on fatherhood	226,998	-	-	226,998
Total expenditures	1,326,629,938	1,763,636,784	701,185,555	3,791,452,277
(Deficiency) excess of revenues (under) over expenditures	(45,092,279)	(87,960)	1,397,371	(43,782,868)
Other financing sources - Transfers in (out)	245,214	87,960	(1,303,944)	(970,770)
Net change in fund balances	(44,847,065)	-	93,427	(44,753,638)
Fund balances at July 1, 2019	204,619,364	-	3,538,786	208,158,150
Fund balances at June 30, 2020	<u>\$ 159,772,299</u>	<u>\$ -</u>	<u>\$ 3,632,213</u>	<u>\$ 163,404,512</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 year ended June 30, 2020

Net change in fund balances - total governmental funds	\$ (44,753,638)
Amounts reported for governmental activities in the statement of activities are different because:	
(1) 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. This is the amount by which depreciation exceeded capital outlays less dispositions and others during the year.	(8,875,819)
(2) Net capital asset transfers from other State departments that are not recorded in the governmental funds.	6,858,370
(3) 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.	<u>(469,333)</u>
Change in net position - governmental activities	<u>\$ (47,240,420)</u>

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 year ended June 30, 2020

	<u>Original</u>	<u>Final</u>	<u>Actual on Budgetary Basis</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES:				
State Allotments	\$ 1,359,027,328	\$ 1,368,103,318	\$ 1,336,778,319	\$ (31,324,999)
EXPENDITURES:				
Health care programs	1,059,603,412	1,050,633,146	973,836,806	76,796,340
General welfare assistance, employment and support services	152,554,637	166,993,637	154,531,611	12,462,026
Child welfare and adult community care services	111,400,991	113,589,021	111,240,357	2,348,664
Youth prevention, delinquency and correction services	19,360,230	19,887,456	18,272,128	1,615,328
General administration	11,071,603	11,963,603	11,926,695	36,908
Vocational rehabilitation and services for the blind	4,862,420	4,862,420	4,838,634	23,786
Commission on the status of women / commission on fatherhood	174,035	174,035	173,690	345
	<u>1,359,027,328</u>	<u>1,368,103,318</u>	<u>1,274,819,921</u>	<u>93,283,397</u>
Excess of revenues over expenditures	<u>-</u>	<u>-</u>	<u>61,958,398</u>	<u>61,958,398</u>
OTHER FINANCING SOURCES:				
TRANSFERS IN	<u>-</u>	<u>-</u>	<u>245,214</u>	<u>245,214</u>
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 62,203,612</u>	<u>\$ 62,203,612</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 year ended June 30, 2020

	<u>Original</u>	<u>Final</u>	<u>Actual on Budgetary Basis</u>		<u>Variance Favorable (Unfavorable)</u>
			<u>Med-QUEST Special Revenue Fund</u>	<u>Human Services Special Revenue Fund</u>	
REVENUES:					
Intergovernmental Revenues:					
Med-QUEST	\$ 1,712,016,565	\$ 1,712,016,565	\$ 1,691,838,103	\$ -	\$ (20,178,462)
Human services	308,526,297	308,526,297	-	175,818,409	(132,707,888)
	<u>2,020,542,862</u>	<u>2,020,542,862</u>	<u>1,691,838,103</u>	<u>175,818,409</u>	<u>(152,886,350)</u>
EXPENDITURES:					
Health care programs	1,712,016,565	1,712,016,565	1,732,255,326	-	(20,238,761)
General welfare assistance, employment and support services	210,338,294	210,338,294	-	84,156,311	126,181,983
Child welfare and adult community care services	67,483,900	67,483,900	-	58,529,381	8,954,519
Vocational rehabilitation and services for the blind	25,315,477	25,315,477	-	18,377,131	6,938,346
Youth prevention, delinquency and correction services	1,614,584	1,614,584	-	893,500	721,084
General administration	3,774,042	3,774,042	-	2,667,102	1,106,940
	<u>2,020,542,862</u>	<u>2,020,542,862</u>	<u>1,732,255,326</u>	<u>164,623,425</u>	<u>123,664,111</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (40,417,223)</u>	<u>\$ 11,194,984</u>	<u>\$ (29,222,239)</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, 2020

	Agency Fund	Private Purpose Trust Funds
ASSETS:		
Cash	\$ 3,511,260	\$ 361,602
Total assets	\$ 3,511,260	\$ 361,602
LIABILITIES:		
Due to individuals	\$ 1,994,896	\$ -
Due to others	1,516,364	-
Total liabilities	\$ 3,511,260	-
NET ASSETS - HELD IN TRUST		\$ 361,602

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, 2020

	Private Purpose Trust Funds
Additions:	
Donations	\$ 8,685
Total additions	8,685
Deductions:	
Other	9,004
Total deductions	9,004
CHANGES IN NET ASSETS	(319)
NET ASSETS AT JULY 1, 2019	361,921
NET ASSETS AT JUNE 30, 2020	\$ 361,602

See accompanying notes to the basic financial statements.

Department of Human Services
State of Hawaii
Notes to the Financial Statements
June 30, 2020

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 towards 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 low-income populations. The Medicaid program is jointly financed by the State and 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 payment 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 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

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administered by the Hawaii 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 for 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 be employed. The economic benefits of the VR programs 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 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,

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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 six 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 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

Department of Human Services
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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 fund.

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 general 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.

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

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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 for 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.

The financial activities of the DHS that are reported in the accompanying fund financial statements have been classified into the following major governmental funds:

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.

In addition, a description of the DHS's fiduciary fund is as follows:

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.

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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 due from other governments and intergovernmental 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, expenditures related to compensated absences and claims and judgements, 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.

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.

Department of Human Services
State of Hawaii
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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 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 are reported in the government-wide financial statements. 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.

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

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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.

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 due from other governments and intergovernmental 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.

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

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 nor 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.

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.

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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

The GASB issued Statement No. 84, Fiduciary Activities. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018, postponed by GASB Statement No. 95 for one year. The DHS has not yet determined the effect this Statement will have on its financial statements.

The GASB issued Statement No. 87, Leases. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows or outflows of resources based on the provisions of the contract. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019, postponed by GASB Statement No. 95 for 18 months. The DHS has not yet determined the effect this Statement will have on its financial statements.

During fiscal year 2020, the DHS implemented GASB Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period. This Statement replaces Paragraph 5-22 of Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. This Statement did not have any effect on the DHS's financial statements.

The GASB issued Statement No. 90, Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improve the relevance of financial statement information for certain component units. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018, postponed by GASB Statement No. 95 for one year. The DHS has not yet determined the effect this Statement will have on its financial statements.

During fiscal year 2020, the DHS implemented GASB Statement No. 91, Conduit Debt Obligations. The primary objectives of this Statement are to provide a single method of

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reporting conduit debt obligations by issuers and eliminate diversity in practice associated with commitments extended by issuers, arrangements associated with conduit debt obligations, and related note disclosures. The implementation of this Statement did not have a material effect on the DHS's financial statements.

The GASB issued Statement No. 92, Omnibus 2020. The primary objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The requirements of this Statement are effective at multiple periods depending on when certain Statements are implemented, postponed by GASB Statement No. 95 for one year. The DHS has not determined the effect this Statement will have on its financial statements.

The GASB issued Statement No. 93, Replacement of Interbank Offered Rates. The primary objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an IBOR. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2020, postponed by GASB Statement No. 95 for one year. The DHS has not determined the effect this Statement will have on its financial statements.

The GASB issued Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2022. The DHS has not determined the effect this Statement will have on its financial statements.

During fiscal year 2020, the DHS implemented GASB Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance. The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018 and later. The requirements of this Statement are effective immediately. This Statement did not have any effect on the DHS's financial statements.

The GASB issued Statement No. 96, Subscription-Based Information Technology Arrangements. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements for government end users. The requirements of this Statement are effective for reporting periods beginning after June 15, 2022. The DHS has not determined the effect this Statement will have on its financial statements.

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The GASB issued Statement No. 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32. The main objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution OPEB (other postemployment benefits) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency and comparability of the accounting and financial reporting for Internal Revenue Code Section 457 deferred compensation plans that meet the definition of a pension plan and for benefits provided through those plans. Certain requirements of this Statement are effective immediately while other requirements, like reporting for section 457 plans are effective for fiscal years beginning after June 15, 2021. The DHS has not 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 Act 5, Session Laws of Hawaii (SLH) 2019, and from other authorizations contained in the State Constitution, Hawaii Revised Statutes, and other specific appropriation acts in various Session Laws of Hawaii.

All expenditures of these appropriated funds are made pursuant to the appropriations in the fiscal 2019 - 2021 biennial budget. The general and special revenue funds have legally appropriated annual budgets.

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, 2020, there were no expenditures in excess of appropriations in the individual funds.

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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.

The following schedule reconciles the budgetary amounts to the amounts presented in accordance with GAAP for the fiscal year ended June 30, 2020:

	<u>General</u>	<u>Med-QUEST</u>	<u>Human Services</u>
(Deficiency) Excess of revenues and other sources (under) over expenditures - actual on a budgetary basis	\$ 62,203,612	\$ (40,417,223)	\$ 11,194,984
Current year's appropriations encumbered at fiscal year-end	191,822,825	40,471,709	37,154,359
Expenditures for liquidation of prior fiscal year encumbrances	(185,055,443)	(35,965,566)	(33,681,183)
Net changes in liabilities	1,509,979	(5,817,044)	(20,360,675)
Net change in accrued medical assistance payable	(19,830,056)	(31,479,423)	-
Accruals related to federal reimbursements for program expenditures	(921,918)	1,630,625	(708,707)
Net change in other receivables	(2,735,936)	(35,578)	(419,866)
Difference for revenues recognized for GAAP purposes	<u>(91,840,128)</u>	<u>71,612,500</u>	<u>6,914,515</u>
Net change in fund balances - GAAP basis	<u>\$ (44,847,065)</u>	<u>\$ -</u>	<u>\$ 93,427</u>

4. Cash and Cash Equivalents

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

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

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

5. Receivables

Receivables of the DHS, net of allowance for doubtful accounts, consisted of the following on June 30, 2020:

	<u>General</u>	<u>Med-Quest</u>	<u>Human Services</u>
Welfare benefit overpayments	\$ 21,735,003	\$ 2,136,461	\$ 26,235,579
Drug rebate receivable	-	56,802,554	-
Risk share	-	33,389,771	-
Medicaid providers receivable	9,400,000	-	-
Medicaid assistance receivable	3,556,230	33,389	-
Social Security interim assistance loans	1,271,247	-	-
CSEA receivable	802,267	-	-
Other Med-QUEST receivable	-	1,368,048	-
	<u>36,764,747</u>	<u>93,730,223</u>	<u>26,235,579</u>
Less allowance for doubtful accounts:			
Welfare benefit overpayments	21,286,257	2,092,351	25,693,913
Medicaid providers receivable	1,480,000	-	-
	<u>22,766,257</u>	<u>2,092,351</u>	<u>25,693,913</u>
Receivables, net	<u>\$ 13,998,490</u>	<u>\$ 91,637,872</u>	<u>\$ 541,666</u>

6. Interfund Receivable and Payable

The general fund had a net receivable due from the special revenue funds totaling \$187,809,416 as of June 30, 2020, for federal reimbursements of program expenditures. The Med-QUEST and Human Services special revenue funds had a payable to the general fund totaling \$125,465,231 and \$62,344,185, respectively, as of June 30, 2020, for federal reimbursements of program expenditures.

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7. Capital Assets

	<u>Balance July 1, 2019</u>	<u>Additions</u>	<u>Disposals</u>	<u>Other</u>	<u>Balance June 30, 2020</u>
Depreciable Assets:					
Building and improvements	\$ 78,644,775	\$ 6,858,371	\$ -	\$ 32,142	\$ 85,535,288
Furniture and equipment	34,196,720	1,254,496	(173,376)	-	35,277,840
Motor vehicles	1,597,548	160,108	(96,805)	-	1,660,851
Intangible assets – software	153,687,136	940,253	-	-	154,627,389
Non-Depreciable Assets:					
Land	<u>1</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1</u>
Total at historical cost	<u>268,126,180</u>	<u>9,213,228</u>	<u>(270,181)</u>	<u>32,142</u>	<u>277,101,369</u>
Less Accumulated Depreciation/ Amortization:					
Building and improvements	39,627,348	3,278,680	-	-	42,906,028
Furniture and equipment	33,753,908	446,786	(170,513)	-	34,030,181
Motor vehicles	1,486,873	72,313	(96,805)	-	1,462,381
Intangible assets - software	<u>122,913,137</u>	<u>7,462,177</u>	<u>-</u>	<u>-</u>	<u>130,375,314</u>
Total accumulated depreciation/amortization	<u>197,781,266</u>	<u>11,259,956</u>	<u>(267,318)</u>	<u>-</u>	<u>208,773,904</u>
Capital Assets, net	<u>\$ 70,344,914</u>	<u>\$ (2,046,728)</u>	<u>\$ (2,863)</u>	<u>\$ 32,142</u>	<u>\$ 68,327,465</u>

Depreciation expense for the fiscal year ended June 30, 2020 was charged to functions/programs of the DHS as follows.

	<u>Governmental Activities</u>
Health care programs	\$ 7,662,225
General welfare assistance, employment and support services	1,312,139
Child welfare and adult community care services	651,339
Commission on status of women / commission on fatherhood	11,039
Vocational rehabilitation and services for the blind	533,471
Youth prevention, delinquency and correction services	993,516
General administration	<u>96,227</u>
	<u>\$ 11,259,956</u>

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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, 2020, was as follows:

Balance at July 1, 2019	\$ 13,399,503
Additions	7,392,390
Reductions	<u>(6,923,057)</u>
Balance at June 30, 2020	13,868,836
Less current portion	<u>(4,988,000)</u>
	<u><u>\$ 8,880,836</u></u>

9. Fund Balance

Fund balance constraints by purpose of June 30, 2020 were as follows:

	General	Med-QUEST Special Revenue Fund	Human Services Special Revenue Fund	Total
Committed:				
Vocation rehabilitation	\$ -	\$ -	\$ 2,126,314	\$ 2,126,314
Child welfare and adult community care	-	-	1,502,135	1,502,135
Commission on the status of women / commission on fatherhood	-	-	3,764	3,764
	<u>-</u>	<u>-</u>	<u>3,632,213</u>	<u>3,632,213</u>
Total – committed	-	-	3,632,213	3,632,213
Assigned:				
Human services	<u>159,772,299</u>	<u>-</u>	<u>-</u>	<u>159,772,299</u>
Total – assigned	<u>159,772,299</u>	<u>-</u>	<u>-</u>	<u>159,772,299</u>
Total fund balances	<u><u>\$ 159,772,299</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 3,632,213</u></u>	<u><u>\$ 163,404,512</u></u>

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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, 2020, were as follows:

	Balance July 1, 2019	Additions	Deductions	Balance June 30, 2020
Assets --				
Cash	\$ 2,770,747	\$ 84,065,549	\$ 83,325,036	\$ 3,511,260
Liabilities --				
Due to individuals and others	\$ 2,770,747	\$ 84,065,549	\$ 83,325,036	\$ 3,511,260

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 \$36,599,000 for the fiscal year ended June 30, 2020, 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 minimum future lease commitments for non-cancelable operating leases as of June 30, 2020:

Fiscal Year Ending June 30,	Amount
2021	\$ 2,045,000
2022	1,625,000
2023	646,000
2024	539,000
2025	138,000
	\$ 4,993,000

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The DHS's rent expenditures for operating leases for the fiscal year ended June 30, 2020, amounted to approximately \$2,281,000 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 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://www.ers.ehawaii.gov/>.

The ERS Pension Trust is comprised of three pension classes for membership purposes and considered to be a single plan for accounting purposes since all assets of the ERS may legally be used to pay the benefits of any of the ERS members or beneficiaries. The ERS provides retirement, disability and death benefits with three membership classes known as the noncontributory, contributory and hybrid retirement plans. The three classes provide a monthly retirement allowance equal to the benefit multiplier (generally 1.25% to 2.25%) multiplied by the average final compensation multiplied by years of credited service. Average final compensation for members hired prior to July 1, 2012 is an average of the highest salaries during any three years of credited service, excluding any salary paid in lieu of vacation for members hired January 1, 1971 or later and the average of the highest salaries during any five years of credited service including any salary paid in lieu of vacation for members hired prior to January 1, 1971. For members hired after June 30, 2012, average final compensation is an average of the highest salaries during any five years of credited service excluding any salary paid in lieu of vacation.

Each retiree's original retirement allowance is increased on each July 1 beginning the calendar year after retirement. Retirees first hired as members prior to July 1, 2012 receive a 2.5% increase each year of their original retirement allowance without a ceiling. Retirees first hired as members after June 30, 2012 receive a 1.5% increase each year of their original retirement allowance without a ceiling. The annual increase is not compounded.

The following summarizes the provisions relevant to the largest employee groups of the respective membership class. Retirement benefits for certain groups, such as police officers,

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firefighters, some investigators, sewer workers, judges, and elected officials, vary from general employees.

Noncontributory Class

- *Retirement Benefits* – General employees’ retirement benefits are determined as 1.25% of average final compensation multiplied by the years of credited service. Employees with ten years of credited service are eligible to retire at age 62. Employees with 30 years of credited service are eligible to retire at age 55.
- *Disability Benefits* – Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 12.5% of average final compensation.
- *Death Benefits* – For service-connected deaths, the surviving spouse/reciprocal beneficiary receives a monthly benefit of 30% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. Additional benefits are payable to surviving dependent children up to age 18. If there is no spouse/reciprocal beneficiary or surviving dependent children, no benefit is payable.

Ordinary death benefits are available to employees who were active at time of death with at least ten years of credited service. The surviving spouse/reciprocal beneficiary (until remarriage/reentry into a new reciprocal beneficiary relationship) and surviving dependent children (up to age 18) receive a benefit equal to a percentage of the member’s accrued maximum allowance unreduced for age or, if the member was eligible for retirement at the time of death, the surviving spouse/reciprocal beneficiary receives 100% joint and survivor lifetime pension and the surviving dependent children receive a percentage of the member’s accrued maximum allowance unreduced for age.

Contributory Class for Members Hired Prior to July 1, 2012

- *Retirement Benefits* – General employees’ retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with five years of credited service are eligible to retire at age 55.
- *Disability Benefits* – Members are eligible for service-related disability benefits regardless of length of service and receive a one-time payment of the member’s contributions and accrued interest plus a lifetime pension of 50% of their average final compensation. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined as 1.75% of average final compensation multiplied by the years of credited

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service but are payable immediately, without an actuarial reduction, and at a minimum of 30% of average final compensation.

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

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

Contributory Class for Members Hired after June 30, 2012

- *Retirement Benefits* – General employees’ retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with ten years of credited service are eligible to retire at age 60.
- *Disability and Death Benefits* – Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 50% of their average final compensation plus refund of contributions and accrued interest. Ten years of credited service is required for ordinary disability.

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

Hybrid Class for Members Hired Prior to July 1, 2012

- *Retirement Benefits* - General employees’ retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with five years of credited service are eligible to retire at age 62. General employees with 30 years of credited service are eligible to retire at age 55.
- *Disability Benefits* - Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation plus refund of their contributions and accrued interest. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined in

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the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 25% of average final compensation.

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

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

Hybrid Class for Members Hired After June 30, 2012

- *Retirement Benefits* - General employees' retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with ten years of credited service are eligible to retire at age 65. Employees with 30 years of credited service are eligible to retire at age 60. Sewer workers, water safety officers, and emergency medical technicians may retire with 25 years of credited service at age 55.
- *Disability and Death Benefits* - Provisions for disability and death benefits generally remain the same except for ordinary death benefits. Ordinary death benefits are available to employees who were active at time of death with at least ten years of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest, or 50% joint and survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least ten years of service and designated one beneficiary, or 100% joint and survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

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

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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, 2020, 2019, and 2018 was paid from the State General Fund and totaled approximately \$12,324,402, \$9,642,247, and \$10,246,000, respectively. The DHS's federal share of pension benefits expense for the fiscal years ended June 30, 2020, 2019, and 2018 was approximately \$6,777,900, \$6,248,907, and \$5,043,000, respectively. The employer contribution rate for the fiscal years ended June 30, 2020, 2019, and 2018 was 22.00%, 19.00%, and 18.00%, 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 at <http://eutf.hawaii.gov>.

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.

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

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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 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, 2020, 2019, and 2018, was approximately \$21,245,000, \$20,285,000, and \$17,211,000, respectively.

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

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 \$100 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.

Department of Human Services
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Notes to the Financial Statements
June 30, 2020

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 \$5 million self-insured retention per occurrence. The annual aggregate for general liability losses per occurrence is \$9 million, \$50 million for cyber liability losses, 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 Funds.

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, 2020, 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, 2020, was approximately \$369,000.

15. Commitments and Contingencies

Encumbrances

Encumbrances as of June 30, 2020 were as follows:

Fund	Amount
General	\$ 188,004,548
Med-QUEST	35,988,257
Human Services	23,806,702
Total	\$ 247,799,507

Department of Human Services
State of Hawaii
Notes to the Financial Statements
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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, 2020, accumulated sick leave was approximately \$37.9 million.

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.

16. Related Party Transactions

The DHS had various amounts due to the State totaling \$192,556,995 as of June 30, 2020, which included federal reimbursements for program expenditures totaling \$149,158,160, receivables totaling \$43,163,471, and cash totaling \$235,364.

SUPPLEMENTARY INFORMATION

Department of Human Services
State of Hawaii
Schedule of Expenditures of Federal Awards
for the year ended June 30, 2020

	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. Department of Health and Human Services:				
<i>Other Programs</i>				
ACL Independent Living State Grants	93.369		\$ 125,438	\$ 123,471
Preschool Development Birth Through Five	93.434		791,911	-
ACL Assistive Technology	93.464		739,019	405,000
Promoting Safe and Stable Families	93.556		1,234,359	1,210,729
Refugee and Entrant Assistance - State				
Administered Programs	93.566		3,515	-
COVID-19 Low-Income Home Energy Assistance	93.568		12,904	-
Low-Income Home Energy Assistance	93.568		4,848,632	-
U.S. Repatriation Program	93.579		2,995	-
Chaffee Education and Training Vouchers				
Program (ETV)	93.599		134,220	-
Children's Justice Grants to States	93.643		91,651	91,651
Stephanie Tubbs Jones Child Welfare				
Services Program	93.645		775,362	772,857
COVID-19 Foster Care - Title IV-E	93.658		232,522	-
Foster Care - Title IV-E	93.658		18,371,502	-
COVID-19 Adoption Assistance	93.659		823,778	-
Adoption Assistance	93.659		15,134,677	-
COVID-19 Guardianship Assistance	93.090		168,897	-
Guardianship Assistance	93.090		3,187,933	-
Social Services Block Grant	93.667		16,460,013	4,321,315
Child Abuse Prevention and Treatment Act	93.669		272,120	272,120
Family Violence Prevention and Services /				
Grants for Battered Women's Shelters -				
Grants to States and Indian Tribes	93.671		905,380	875,824
Chafee Foster Care Independence Program	93.674		496,075	496,075
Children's Health Insurance Program	93.767		53,709,912	-
Money Follows a Person	93.791		264,658	-
<i>Total Other Programs</i>			118,787,473	8,569,042
<i>TANF Cluster</i>				
Temporary Assistance for Needy Families	93.558		43,506,130	22,057,687
<i>Total TANF Cluster</i>			43,506,130	22,057,687
<i>Medicaid Cluster</i>				
State Survey and Certification of Health				
Care Providers	93.777		769,013	-
COVID-19 - Medical Assistance Program	93.778		53,521,900	-
Medical Assistance Program	93.778		1,497,333,270	-
<i>Total Medicaid Cluster</i>			1,551,624,183	-
Subtotal carried forward			\$ 1,713,917,786	\$ 30,626,729

Department of Human Services
State of Hawaii
Schedule of Expenditures of Federal Awards (continued)
for the year ended June 30, 2020

	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. Department of Health and Human Services (continued):				
Subtotal brought forward			\$ 1,713,917,786	\$ 30,626,729
<i>CCDF Cluster</i>				
Child Care and Development Block Grant	93.575		9,940,131	4,510,034
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596		12,026,975	-
<i>Total CCDF Cluster</i>			21,967,106	4,510,034
Total U.S. Department of Health and Human Services			1,735,884,892	35,136,763
U.S. Department of Agriculture:				
<i>SNAP Cluster</i>				
Supplemental Nutrition Assistance Program	10.551		519,850,526	-
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561		23,131,113	1,606,977
<i>Total SNAP Cluster</i>			542,981,639	1,606,977
Total U.S. Department of Agriculture			542,981,639	1,606,977
U.S. Department of Housing and Urban Development:				
Emergency Solutions Grants Program	14.231		360,239	329,016
Housing Opportunities for Persons with AIDS	14.241		277,455	258,250
Total U.S. Department of Housing and Urban Development			637,694	587,266
U.S. Department of Justice:				
Juvenile Justice and Delinquency Prevention - Allocation to States	16.540		397,141	315,690
Passed through State Department of the Attorney General - Edward Byrne Memorial Grant Program	16.588	2016-WF-FX-0022	34,420	-
Prison Rape Elimination Act Reallocation Funds	16.735		4,492	-
Total U.S. Department of Justice			436,053	315,690
U.S. Department of Labor:				
Passed through State Department of Labor and Industrial Relations - Senior Community Service Employment Program	17.235	PY19-SCSEP-CC-DHS	133,226	-
Total U.S. Department of Labor			\$ 133,226	\$ -

Department of Human Services
State of Hawaii
Schedule of Expenditures of Federal Awards (continued)
for the year ended June 30, 2020

	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures	Amount Provided to Subrecipients
Corporation for National and Community Service:				
<i>Foster Grandparent/Senior Companion Cluster</i>				
Foster Grandparent Program	94.011		\$ 407,199	\$ -
Senior Companion Program	94.016		213,856	-
<i>Total Foster Grandparent/Senior Companion Cluster</i>			621,055	-
Total Corporation for National and Community Service			621,055	-
Social Security Administration:				
<i>Disability Insurance/SSI Cluster</i>				
Social Security - Disability Insurance	96.001		7,380,372	-
<i>Total Disability Insurance/SSI Cluster</i>			7,380,372	-
Total Social Security Administration			7,380,372	-
U.S. Department of the Interior:				
Passed through State Governor's Office -				
Economic, Social, Political Developments of the Territories	15.875	Hawaii-CI-2019-1	13,129,034	-
Total U.S. Department of the Interior			13,129,034	-
U.S. Department of Education:				
Rehabilitation Services - Vocational				
Rehabilitation Grants to States	84.126		9,605,797	-
Rehabilitation Services - Independent Living				
Services for Older Individuals Who are Blind	84.177		148,639	-
Supported Employment Services for				
Individuals with the most Significant Disabilities	84.187		46,293	-
Total U.S. Department of Education			9,800,729	-
TOTAL FEDERAL EXPENDITURES			\$ 2,311,004,694	\$ 37,646,696

Department of Human Services
State of Hawaii
Notes to the Schedule of Expenditures of Federal Awards
June 30, 2020

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the DHS and is presented on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of 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

Grant awards totaling \$1,680,684 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, 2020, 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 15, 2021.

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) as a basis for designing 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.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying *Schedule of Findings and Questioned Costs* as item 2020-001, that we consider to be a significant deficiency.

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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Audit Standards*.

The DHS's Response to Findings

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

Purpose of this Report

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

KMH LLP

KMH LLP

Honolulu, Hawaii
March 15, 2021

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



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, 2020. 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 qualified and unmodified opinions 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 Major Federal Programs Identified in the Table Below

As described in Findings 2020-002 through 2020-012 in the accompanying *Schedule of Findings and Questioned Costs*, the DHS did not comply with requirements regarding the following:

Finding #	CFDA #	Program (or Cluster) Name	Compliance Requirement
2020-002	93.777, 93.778	Medicaid Cluster	Eligibility
2020-003	93.777, 93.778	Medicaid Cluster	Special Tests and Provisions
2020-004	93.777, 93.778	Medicaid Cluster	Special Tests and Provisions
2020-005	84.126	Rehabilitation Services - Vocational Rehabilitation Grant to the State	Program Income
2020-006	84.126	Rehabilitation Services - Vocational Rehabilitation Grant to the State	Reporting
2020-007	10.551, 10.561	SNAP Cluster	Subrecipient Monitoring
2020-008	10.551, 10.561	SNAP Cluster	Special Tests and Provisions
2020-009	10.551, 10.561	SNAP Cluster	Special Tests and Provisions
2020-010	93.090	Guardianship Assistance	Eligibility, Activities Allowed or Unallowed, Allowable Cost
2020-011	93.558	TANF Cluster	Special Tests and Provisions
2020-012	93.558	TANF Cluster	Special Tests and Provisions

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 paragraph, 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 major federal programs identified in the Basis for Qualified Opinion paragraph for the year ended June 30, 2020.

Unmodified Opinion on Each of the Other Major Federal Programs

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 program identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2020.

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 2020-13 through 2020-14. Our opinion on each major federal program is not modified with respect to these matters.

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.

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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section 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 have not been identified. We did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as items 2020-002 through 2020-012, that we consider to be material weaknesses.

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 the response.

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

KMH LLP

KMH LLP

Honolulu, Hawaii
March 15, 2021

PART IV

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs
for the year ended June 30, 2020

Section I – Summary of Auditor’s Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiencies identified? Yes None

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiencies identified? Yes None

Type of auditor’s report issued on compliance for major federal programs: Qualified for all major programs except for Economic, Social, and Political Development of the Territories, which is unmodified.

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

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	Rehabilitation Services – Vocational Rehabilitation Grants to States
93.090	Guardianship Assistance
93.558	TANF Cluster
93.777, 93.778	Medicaid Cluster

Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs (continued)
for the year ended June 30, 2020

Section I – Summary of Auditor’s Results

Dollar threshold used to distinguish between type A and type B programs:	\$6,933,014
Auditee qualified as low-risk auditee?	<u> </u> Yes <u> X </u> No

Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs (continued)
for the year ended June 30, 2020

Section II – Financial Statement Findings

Finding No.: 2020-001 Accrual of Fringe Benefits

Type of Finding: Significant Deficiency

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 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.

Condition: We proposed and management accepted audit adjustments related to the under accrual of fringe benefits payable of approximately \$8.5 million and the over accrual of amounts due to the State of approximately \$5.8 million.

Context: The fringe benefits payable amount is included in the calculation to determine amounts due to the State. Consequently, any errors in the calculation of fringe benefits payable amount will also result in errors in the calculated amounts due to the State.

Cause: Management has a process in place to determine the accrual of fringe benefits payable. However, in determining the fringe benefit payable amount at June 30, 2020, both the preparer and reviewer of the calculation inadvertently excluded from its calculation unpaid amounts related to fiscal year 2019 fringe benefits payable.

Effect: The under accrual of fringe benefit payable and the corresponding over accrual of amounts due to the State resulted in the initial management prepared financial information being misstated.

Identification of a repeat finding: N/A

Recommendations: We recommend management be more diligent in preparing and reviewing the fringe benefits payable calculation.

Views of Responsible Officials and Planned Corrective Action: See Part VI Correction Action Plan.

Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs (continued)
for the year ended June 30, 2020

Section III – Federal Award Findings and Questioned Costs

**Finding No.: 2020-002 Complete Eligibility Applications and Annual Eligibility
Re - Verifications in a Timely Manner**

Federal Agency:	U.S Department of Health and Human Services	
CFDA No.:	93.777 and 93.778	
Program:	Medicaid Cluster	
Requirement:	Eligibility	
Type of Finding:	Non-Compliance and Material Weakness	
Federal award no.	1905HI5MAP	2019
and year:	2005HI5MAP	2020

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 (MAGI-excepted), and 2) forty five days for all other applicants (MAGI). In addition, Title 42 CFR Part 435.916 requires annual re-verifications of participant eligibility.

Condition: Eligibility determinations for both MAGI and MAGI-excepted initial applications were not processed in accordance with the time standards. Additionally, eligibility re-verifications were not completed in a timely manner.

Context: We obtained the monthly CMS Performance Metrics Report, which the Department uses to report the timeliness of initial eligibility determinations and re-verifications, and noted that there were approximately 64,000 applications received during fiscal year 2020. Based on the monthly CMS Performance Metrics Report, which identifies the number of applicants that were not processed timely at the end of the month, KMH computed a monthly average of approximately 70 MAGI applications and approximately 5 MAGI-excepted applications where the initial eligibility was not determined within the timeframe as defined. Additionally, there were approximately 282,000 re-verifications processed during fiscal year 2020 and KMH computed a monthly average of approximately 2,500 cases where the re-verification was not completed within 12 months.

Cause: Management indicated that there was a lack of training and standard operating procedures to ensure initial eligibility determination and re-verifications were completed timely.

Effect: The Department was not in compliance with the requirement to determine eligibility in a timely manner.

Questioned costs: None

Identification of a repeat finding: This is a repeat finding from the immediate previous audit, 2019-002.

Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs (continued)
for the year ended June 30, 2020

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

**Finding No.: 2020-002 Complete Eligibility Applications and Annual Eligibility
Re - Verifications in a Timely Manner (continued)**

Recommendations: We recommend the Department implement training and standard operating procedures to ensure eligibility determinations is completed in a timely manner.

Views of Responsible Officials and Planned Corrective Action: See Part VI Correction Action Plan.

Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs (continued)
for the year ended June 30, 2020

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

Finding No.: 2020-003	Refunding of Medicaid Overpayments
Federal Agency:	U.S. Department of Health and Human Services
CFDA No.:	93.777 and 93.778
Program:	Medicaid Cluster
Requirement:	Special Tests and Provisions – Refunding of Federal Share of Medicaid Overpayments to Providers
Type of Finding:	Non-Compliance and Material Weakness
Federal award no. and year:	1905HI5MAP 2019 2005HI5MAP 2020

Criteria: The State Medicaid Agency, Department of Human Services, Med Quest Division is required to refund the federal share of Medicaid overpayments made to providers in accordance with 42 U.S.C. 1396b and 42 CFR subpart F.

Pursuant to 42 U.S.C. 1396b, the State Medicaid Agency has up to one year from the date of discovery of Medicaid overpayments to recover or attempt to recover the overpayments before the federal share must be refunded, regardless of whether recovery is made from the provider.

Pursuant to 42 CFR 433.320(a)(2) the State Medicaid Agency must credit CMS with the Federal share of overpayments subject to recovery on the earlier of (1) the form CMS-64 submission due to CMS for the quarter in which the State recovers the overpayment from the provider; or (2) the form CMS-64 due to CMS for the quarter in which the 1-year period following discovery ends.

Condition: The Department did not properly credit the CMS-64 report for overpayments discovered.

Context: The Department reported and refunded only collected overpayments, however overpayments discovered and not recovered were not reported and refunded.

Cause: The Department was not aware of the requirements which led to the lack of proper policies and procedures in place.

Effect: The Department was not in compliance with the requirements.

Questioned costs: N/A

Identification of a repeat finding: N/A

Recommendations: We recommend the Department establish policies and procedures to ensure compliance with the program requirements, and to follow them diligently.

Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs (continued)
for the year ended June 30, 2020

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

Finding No.: 2020-003 Refunding of Medicaid Overpayments (continued)

Views of Responsible Officials and Planned Corrective Action: See Part VI Correction Action Plan.

Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs (continued)
for the year ended June 30, 2020

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

Finding No.: 2020-004 Revalidation of Provider Eligibility

Federal Agency:	U.S. Department of Health and Human Services	
CFDA No.:	93.777 and 93.778	
Program:	Medicaid Cluster	
Requirement:	Special Tests and Provisions - Provider Eligibility	
Type of Finding:	Non-Compliance and Material Weakness	
Federal award no.	1905HI5MAP	2019
and year:	2005HI5MAP	2020

Criteria: The State Medicaid Agency, Department of Human Services, Med Quest Division is required to screen and enroll providers in accordance with 42 CFR Part 455, subpart E and make certain disclosures to the State Medicaid Agency in accordance with 42 CFR Part 455, subpart B.

Pursuant 42 CFR 455.414, the State Medicaid agency must revalidate the enrollment of all providers regardless of provider type at least every 5 years.

Pursuant to 42 CFR 455.432, the State Medicaid Agency must (a) conduct pre-enrollment site visits of providers who are designated as “moderate” or “high” categorical risks to the Medicaid program and (b) must require any enrolled provider to permit CMS, its agents, its designated contractors, or the State Medicaid Agency to conduct unannounced on-site inspections of any or all provider locations.

Pursuant to 42 CFR 455.434, the State Medicaid Agency must require providers to submit criminal background checks including finger printing for those designated as "high" categorical risks to the Medicaid program.

Condition: Required screening and enrollment for 9 providers was not properly supported by the Department’s records and the Medicaid Application/Change Request Form (Form DHS 1139). Required pre-enrollment on-site inspections were not performed or documented for 2 providers. Also, a record of criminal background check was not maintained for 1 provider.

Context: We selected a non-statistical sample of 90 providers for testing out of a population of approximately 7,700 providers. The providers selected for testing represented approximately \$906,000 of payments out of a total payment population of approximately \$101 million. The results of our testing were as follows:

- 4 providers where the Form DHS 1139 was not maintained.
- 5 providers where an updated Form DHS 1139 was not maintained.
- 2 providers where the on-site visit documentation was not maintained.
- 1 provider where the license and criminal background check were not maintained.

Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs (continued)
for the year ended June 30, 2020

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

Finding No.: 2020-004 Revalidation of Provider Eligibility (continued)

Cause: Although the Department has policies and procedures in place requiring the maintenance of required documentation and on-site visits, there was a lack of diligence in complying with the policies and procedures.

Effect: The Department was not in compliance with the requirement resulting in potential questioned costs.

Questioned costs: \$444,170

Identification of a repeat finding: This is a repeat finding from the immediate previous audit, 2019-004.

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

Views of Responsible Officials and Planned Corrective Action: See Part VI Correction Action Plan.

Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs (continued)
for the year ended June 30, 2020

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

Finding No.: 2020-005	Program Income
Federal Agency:	U.S. Department of Education
CFDA No.:	84.126
Program:	Rehabilitation Services - Vocational Rehabilitation Grants to States
Requirement:	Program Income
Type of Finding:	Non-Compliance and Material Weakness
Federal award no. and year:	H126A200015 2020

Criteria: 34 CFR 361.63 requires the Department to disburse program income funds before requesting additional funds from the Department of Education.

Condition: Program income amounts were not disbursed prior to requesting additional funds.

Context: During our audit, we noted approximately \$1,021,000 of program income was received throughout the year, however, it was not consistently disbursed prior to requesting additional funds from the Department of Education. The Department maintained a program income balance of approximately \$255,000 at June 30, 2020.

Cause: The Department developed policies and procedures over program income during the year, however, there was a lack of diligence in following the policies and procedures to ensure program income funds were utilized prior to requesting additional funds.

Effect: Failure to disburse program income before requesting additional funds resulted in non-compliance with the requirement.

Questioned Costs: None

Identification of a repeat finding: This is a repeat finding of the most recent prior year audit 2019-005.

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

Views of Responsible Officials and Planned Corrective Action: See Part VI Correction Action Plan.

Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs (continued)
for the year ended June 30, 2020

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

Finding No.: 2020-006	Maintaining Proper Case Documentation
Federal Agency:	U.S. Department of Education
CFDA No.:	84.126
Program:	Rehabilitation Services - Vocational Rehabilitation Grants to States
Requirement:	Reporting
Type of Finding:	Non-Compliance and Material Weakness
Federal award no. and year:	H126A180015 2018 H126A190015 2019 H126A200015 2020

Criteria: Rehabilitation Services Administration (RSA) Policy Directive RSA-PD-16-04 and 34 CFR 361.47 requires State Vocational Rehabilitation agencies to maintain supporting documentation (either hard copies or scanned copies) particularly regarding eligibility determinations, development of the individualized plan for employment, services provided, and case closure in the service record or case management system. Data reported in the case management system must match the supporting documentation for data elements containing critical information.

Condition: 14 cases did not have supporting documentation or there were discrepancies between the information per the case management system and the supporting documentation for one or more key data elements.

Context: We selected a non-statistical sample of 60 participant case files, out of a population of 7,699 based on the participants from two quarterly reports, for testing and noted exceptions in 14 case files as follows:

- 2 cases did not have the eligibility determination form to support the date of eligibility determination
- 1 case did not have the individualized plan for employment (IPE) to support the date of most recent or amended IPE
- 2 cases did not have supporting documentation (i.e. paystubs) for the start date of employment in primary occupation
- 1 case did not have supporting documentation (i.e. paystubs) for the employment outcome at exit and for the hourly wage at exit
- 6 cases had discrepancies between the date of application per the case management system and per the application form
- 1 case had a discrepancy between the date of eligibility determination per the case management system and the date per the eligibility determination form
- 4 cases had discrepancies between the date of most recent or amended IPE per the case management system and the IPE

Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs (continued)
for the year ended June 30, 2020

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

Finding No.: 2020-006 Maintaining Proper Case Documentation (continued)

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

Effect: Without the appropriate documentation to support the key data elements reported, the Department is unable to demonstrate its compliance with the reporting requirements.

Questioned Costs: None

Identification of a repeat finding: This is a repeat finding of the most recent prior year audit 2019-006.

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 and Planned Corrective Action: See Part VI Correction Action Plan.

Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs (continued)
for the year ended June 30, 2020

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

Finding No.: 2020-007	Subrecipient Monitoring
Federal Agency:	U.S. Department of Agriculture
CFDA No.:	10.551 and 10.561
Program:	Supplemental Nutrition and Assistance Program Cluster
Requirement:	Subrecipient Monitoring
Type of Finding:	Non-Compliance and Material Weakness
Federal award no. and year:	7HI400HI4 2018 – 2020 7HI430HI4 2018 – 2020 7HI430HI5 2019 – 2021

Criteria: 2 CFR 200.332(b) requires the pass-thru entity to evaluate each subrecipient’s risk of noncompliance for purposes of determining the appropriate subrecipient monitoring related to the subaward. 2 CFR 200.332(d) requires that the pass-thru entity monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward. In lieu of conducting a risk assessment as required by 2 CFR 200.332(b), the Department has adopted a policy to perform an annual audit for all subrecipients which includes a requirement for on-site reviews.

Condition: No on-site reviews were conducted during the year.

Context: The Department has a total of 12 subrecipients, none of which received an on-site review.

Cause: Management indicated that prior to March 2020, on-site reviews were not performed due to staffing shortages. Management further indicated that subsequent to March 2020, on-site reviews were not performed due to the restriction on travel due to COVID-19.

Effect: Failure to perform the required on-site reviews 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, 2019-007.

Recommendations: We recommend that the Department perform the annual on-site review as required by their policy or consider revising their policy to include an annual risk assessment of subrecipients to determine the appropriate level of subrecipient monitoring.

Views of Responsible Officials and Planned Corrective Action: See Part VI Correction Action Plan.

Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs (continued)
for the year ended June 30, 2020

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

Finding No.: 2020-008 EBT Reconciliation

Federal Agency:	U.S. Department of Agriculture
CFDA No.:	10.551 and 10.561
Program:	Supplemental Nutrition and Assistance (SNAP) Cluster
Requirement:	Special Tests and Provisions – EBT Reconciliation
Type of Finding:	Non-Compliance and Material Weakness
Federal award no. and year:	7HI400HI4 2018 – 2020 7HI430HI4 2018 – 2020 7HI430HI5 2019 – 2021

Criteria: 7 CFR 274.4(a) requires that the Department perform daily reconciliations of all SNAP transactions between the State's Benefit Account, the US Treasury Department, and the EBT contractors.

Condition: The Department did not perform the required daily reconciliations.

Context: The Department did not begin performing the required daily reconciliations until February 2020. Additionally, once daily reconciliations commenced, identified variances were not investigated and there was no review performed of the daily reconciliations.

Cause: The Department noted there were no written procedures when the previous accountant responsible for the daily EBT reconciliations exited the Department in fiscal year 2019. Consequently, the Department had difficulty developing procedures to perform the required reconciliations. Also, the supervisor who performs the review of the reconciliation retired from the Department in December of 2019.

Effect: Failure to perform the required reconciliations 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 2019-008.

Recommendations: We recommend that the Department develop procedures to ensure the daily reconciliation is completed, identified variances are resolved and the reconciliation is reviewed in a timely manner.

Views of Responsible Officials and Planned Corrective Action: See Part VI Correction Action Plan.

Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs (continued)
for the year ended June 30, 2020

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

Finding No.: 2020-009 EBT Card Security

Federal Agency:	U.S. Department of Agriculture
CFDA No.:	10.551 and 10.561
Program:	Supplemental Nutrition and Assistance Program Cluster
Requirement:	Special Tests and Provisions – EBT Card Security
Type of Finding:	Non-Compliance and Material Weakness
Federal award no. and year:	7HI400HI4 2018 – 2020 7HI430HI4 2018 – 2020 7HI430HI5 2019 – 2021

Criteria: 7 CFR 274.8(b)(3) requires the Department to ensure there are storage and control measures to control blank unissued electronic benefit transfer (EBT) cards. To address this requirement, the Department has adopted a policy that requires each of its processing centers to lock up all unissued EBT cards when the cards are not in use.

Condition: Unissued EBT cards were not properly secured at 2 processing centers.

Context: We selected a non-statistical sample of 4 processing centers out of the Department’s 21 processing centers and noted that at 2 processing centers the unissued EBT cards that were not in use were not locked up.

Cause: Although the Department has policies and procedures in place requiring unissued EBT cards to be locked up, there was a lack of diligence in complying with the policies and procedures.

Effect: The Department was not in compliance with the requirement.

Questioned Costs: None

Identification of a repeat finding: This is a repeat finding from the immediate previous audit 2019-009.

Recommendations: We recommend the Department follow their policy to secure unissued EBT cards.

Views of Responsible Officials and Planned Corrective Action: See Part VI Correction Action Plan.

Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs (continued)
for the year ended June 30, 2020

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

Finding No.: 2020-010 Maintaining Proper Case Documentation to Support Eligibility Determinations

Federal Agency:	U.S. Department of Health and Human Services	
CFDA No.:	93.090	
Program:	Guardianship Assistance	
Requirement:	Eligibility, Activities Allowed or Unallowed, Allowable Cost	
Type of Finding:	Non-Compliance and Material Weakness	
Federal award no. and year:	1901HIGARD 2019	2001HIGARD 2020

Criteria: Pursuant to 42 USC 673(d)(1), an executed kinship guardianship assistance agreement with the prospective relative guardian must include the amount of and any adjustments based on the needs of the child. The "Guardianship/Permanency Assistance Agreement" (Agreement) is the agreement executed with the relative guardian. The Agreement outlines the terms and conditions for the participants and the Department, and includes the total amount of assistance payments. 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 assistance payments, the caseworkers are required to execute a revised Agreement.

Pursuant to 42 USC 673(d)(3)(A), a child is eligible when the state agency determines the following:

- a) With respect to a child who has attained 14 years of age, the child has been consulted regarding the kinship guardianship arrangement.
- b) Eligible for foster care maintenance payments under 42 USC 672 while residing for at least six consecutive months in the home of the prospective relative guardian.
- c) Removed from his or her home pursuant to a voluntary placement agreement or as a result of a judicial determination to the effect that continuation in the home would be contrary to the welfare of the child.

Pursuant to 42 USC 673(a)(4)(A), assistance payments must stop for a child who has attained 18 years of age or greater or 21 years of age if the State determines that the child has a mental or physical handicap.

Pursuant to 42 USC 671(a)(20)(c), any relative guardian must satisfactorily have met a criminal records check, including a fingerprint-based check of national crime information databases (as defined in 28 USC 534(e)(3)(A)), and for checks described in 42 USC 671(a)(20)(B) on any relative guardian and any other adult living in the home of any relative guardian, before the relative guardian may receive kinship guardianship assistance payments on behalf of the child.

Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs (continued)
for the year ended June 30, 2020

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

Finding No.: 2020-010 Maintaining Proper Case Documentation to Support Eligibility Determinations (continued)

Condition: Eligibility determinations for 38 participants were not supported by the Department’s records or were not completed in accordance with the State Plan, which encompasses the regulations above.

Context: We selected a non-statistical sample of 60 case files which approximated \$22,000 in payments, out of a population of approximately 500 cases which approximated \$3 million in payments, for testing and noted exceptions in 38 case files as follows:

- 24 case files where the executed Agreement was not updated to reflect the revised monthly assistance amount.
- 4 case files where the DOC was missing or did not support the amount paid.
- 6 case files where the eligibility supporting documents such as birth certificate, court order, consent form and 6 months of foster care eligibility were missing in the case files.
- 14 case files where the state, FBI, and/or child abuse and neglect clearances were missing in the case files.

Cause: Although the Department has established policies and procedures in place over the application process and determination of assistance amount, 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: \$14,128

Identification of a repeat finding: N/A

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

Views of Responsible Officials and Planned Corrective Action: See Part VI Correction Action Plan.

Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs (continued)
for the year ended June 30, 2020

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

Finding No.: 2020-011

Income Eligibility and Verification System

Federal Agency:	U.S. Department of Health and Human Services		
CFDA No.:	93.558		
Program:	Temporary Assistance for Needy Families Cluster		
Requirement:	Special Test – Income Eligibility and Verification System		
Type of Finding:	Non-Compliance and Material Weakness		
Federal award no.	G1501HITANF	2015	
and year:	G1801HITANF	2018	
	G1901HITANF	2019	
	G2001HITANF	2020	

Criteria: Title 45 CFR 205.55, requires the State agency to request through the Income Eligibility and Verification System (IEVS), wage information, unemployment compensation, social security income, unearned income, and any other income information.

Condition: 3 participants where the support to show income information was requested through IEVS in accordance with the Department’s policies and procedures was not maintained.

Context: We selected a non-statistical sample of 60 case files for testing and noted 3 instances where the Department’s records did not support the use of the income information obtained through IEVS to re-evaluate the initial benefit calculations.

Cause: Program management indicated that there are policies and procedures in place regarding the use of the IEVS and the retention of the required documentation but these policies and procedures were not consistently followed.

Effect: Failure to properly document use of the IEVS to evaluate benefit amounts resulted in potential over payments of benefits.

Questioned costs: \$1,863

Identification of a repeat finding: This is a repeat finding from the immediate previous audit, 2019-011.

Recommendation: The Department should be more diligent in consistently following its policies and procedures.

Views of Responsible Officials and Planned Corrective Action: See Part VI Correction Action Plan.

Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs (continued)
for the year ended June 30, 2020

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

Finding No.: 2020-012 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 Cluster	
Requirement:	Special Tests and Provisions - Child Support Non-Cooperation	
Type of Finding:	Non-Compliance and Material Weakness	
Federal award no. and year:	G1501HITANF	2015
	G1801HITANF	2018
	G1901HITANF	2019
	G2001HITANF	2020

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: There were 4 participant files where appropriate action was not taken to comply with the requirements.

Context: We selected a non-statistical sample of 9 participant files for testing out of a population of 44 participant files that were determined by the Title IV-D agency as not cooperating with the child support enforcement requirements. During our review, we noted 4 participant files did not contain any correspondence, notices, or documentation to indicate any follow up action, up to and including case closure and cessation of benefits, were performed. Consequently, there may be potential overpayments of benefits of \$28,244.

Cause: There was a lack of diligence in following the Department’s established policies and procedures to ensure compliance with the requirements.

Effect: Failure to take appropriate action resulted in non-compliance with the requirements and questioned costs.

Questioned Costs: \$28,244

Identification of a repeat finding: This is a repeat finding from the immediate previous audit, 2019-012.

Recommendations: We recommend that the Department diligently perform the required procedures and to develop system controls to suspend benefits until non-cooperation is addressed.

Views of Responsible Officials and Planned Corrective Action: See Part VI Correction Action Plan.

Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs (continued)
for the year ended June 30, 2020

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

Finding No.: 2020-013 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 Cluster	
Requirement:	Eligibility	
Type of Finding:	Known Questioned Costs When Likely Questioned Costs Are Greater Than \$25,000	
Federal award no. and year:	G1501HITANF	2015
	G1801HITANF	2018
	G1901HITANF	2019
	G2001HITANF	2020

Criteria: The State of Hawaii Temporary Assistance for Needy Families State Plan (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.

Condition: Eligibility determinations for 2 participants were not properly supported by the Department’s records or were not completed in accordance with the State Plan.

Context: We selected a non-statistical sample of 60 participant files, representing approximately \$34,000 of benefit payments, out of a population of approximately 7,000 cases, representing approximately \$15,000,000 of benefit payments, for testing and noted exceptions in 2 case files where the form DHS 1006, which documents the caseworker interview was not maintained, resulting in potential benefit overpayments of \$562.

Cause: Although the Department has established policies and procedures in place over the application process, 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: \$562

Identification of a repeat finding: This is a repeat finding from the immediate previous audit, 2019-010.

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

Views of Responsible Officials and Planned Corrective Action: See Part VI Correction Action Plan.

Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs (continued)
for the year ended June 30, 2020

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

Finding No.: 2020-014 Maintaining Proper Case Documentation to Support Eligibility Determination

Federal Agency: U.S Department of the Interior
CFDA No.: 15.875
Program: Economic, Social, and Political Development of the Territories
Requirement: Eligibility
Type of Finding: Known Questioned Costs When Likely Questioned Costs Are Greater Than \$25,000
Federal award no. and year: Hawaii-CI-2019-1 2019

Criteria: In accordance with 42 CFR 435.907, the DHS must accept an application from the applicant, and any documentation required to establish eligibility.

Condition: There was 1 participant file where a required form, the DHS 1100B, was not maintained to support eligibility determination.

Context: We selected a non-statistical sample of 60 participant files, representing approximately \$98,000 of benefit payments, out of a population of approximately 2,700 participants, representing approximately \$13,129,000 of benefit payments for testing and noted 1 case file where the form DHS 1100B was missing.

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

Effect: 1 participant that was determined to be eligible did not have the proper support for eligibility determination.

Questioned Costs: \$1,955

Identification of a repeat finding: N/A

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 and Planned Corrective Action: See Part VI Correction Action Plan.

PART V
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Department of Human Services
State of Hawaii
Summary Schedule of Prior Audit Findings
for the year ended June 30, 2020

Status Report

This section contains the current status of our prior audit recommendations. The recommendations are referenced to the previous audit report for the fiscal year ended June 30, 2019, dated March 16, 2020.

Section II – Financial Statement Findings

2019-001 Financial Statement Reporting

Recommendations: We recommend the following:

- (1) Vouchers payable – management should consider revising their process to include the review of the actual invoice instead of relying only on the service period or date of goods received as reported in the State’s accounting system.
- (2) Receivables from the DOH – management should be more diligent in its review process identifying which period collected funds relate to.
- (3) Accrued medical assistance payable - management should ensure that in addition to the mechanical process of preparing the medical assistance payable estimate, they incorporate a review to determine whether the information utilized appears reasonably complete.

Corrective Action Taken or Planned: The Vouchers Payable process has been updated to include the review of the invoice as to when the goods or services were ordered.

Completion Date: June 30, 2020

Status: This finding is no longer applicable.

Section III – Federal Award Findings and Questioned Costs

2019-002 Complete Eligibility Applications and Annual Eligibility Re-Verifications in a Timely Manner

CFDA No.: 93.777 and 93.778

Program: Medicaid Cluster

Recommendations: We recommend the Department review the system logic utilized in producing the CMS Performance Metrics report to ensure the information is aggregated properly for re-verification and be more diligent in complying with policies and procedures.

Corrective Action Taken or Planned: The Department is still actively engaged in the implementation of business process improvements to ensure that staff process applications timely and update eligibility renewal dates when re-determining eligibility at annual renewal. In addition, the Department is scheduled to implement system functionality to complement operational business process improvements that include task-based workflows and ex parte eligibility renewals.

Status: Corrective action is ongoing. See finding 2020-002.

Department of Human Services
State of Hawaii
Summary Schedule of Prior Audit Findings (continued)
for the year ended June 30, 2020

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

This finding has occurred from at least the fiscal year ended June 30, 2005.

2019-003 Maintaining Proper Case Documentation to Support Eligibility Determinations
CFDA No.: 93.777 and 93.778
Program: Medicaid Cluster

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: The Department is still actively engaged in the implementation of business process improvements to ensure that staff process applications timely and update eligibility renewal dates when re-determining eligibility at annual renewal. In addition, the Department is scheduled to implement system functionality to complement operational business process improvements that include task-based workflows and ex parte eligibility renewals.

Status: Corrective action is ongoing, however no finding noted in 2020.

2019-004 Revalidation of Provider Eligibility
CFDA No.: 93.777 and 93.778
Program: Medicaid Cluster

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: The Department went live with HOKU, our new web-based provider enrollment system, on August 3, 2020 after several delays from the initial go-live date of March 2020. We elected to go with a phased go-live approach, recognizing the limited staffing that is available to the Department to enroll providers into HOKU. This approach has providers registering into HOKU in four approximately equal-sized ‘Waves’ based on provider type, occurring from go-live until the end of 2020. We continue to partner with our vendor Koan to staff the provider call center and provider application processing. Provider training for the HOKU system is accomplished via a three prong approach – ‘live’ scheduled webinar training, YouTube training videos, and PDF slide deck training, all of which can be accessed from our HOKU website at medquest.hawaii.gov/HOKU. The Department has assigned a TA supervisor for the provider enrollment section in the latter part of 2019, to provide daily oversight, management, and problem solving around the HOKU implementation. Development of an internal staff library of policies and procedures is on-going, and will be made available to all staff and vendors working on provider enrollment. Internal staff meetings are held daily to identify provider enrollment issues and solution development, and include the vendor Koan. Daily post go-live calls continue with the HOKU vendor CNSI to address on-going system updates, problems, and needed configuration.

Status: Corrective action is ongoing. See finding 2020-004.

This finding initially occurred in the fiscal year ended June 30, 2018.

Department of Human Services
State of Hawaii
Summary Schedule of Prior Audit Findings (continued)
for the year ended June 30, 2020

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

2019-005 Program Income

CFDA No.: 84.126

Program: Vocational Rehabilitation

Recommendations: We recommend the Department develop written policies and procedures over program income and diligently follow them to ensure compliance with the Federal requirements.

Corrective Action Taken or Planned: On April 30, 2020, this Period of Performance procedure was reviewed with DVR leadership for their training, feedback, and recommended edits. We have not issued the final signed procedure as we work to get RSA and WINTAC updates first.

Status: Corrective action is ongoing. See finding 2020-005.

This finding initially occurred in the fiscal year ended June 30, 2019.

2019-006 Maintaining Proper Case Documentation

CFDA No.: 84.126

Program: Vocational Rehabilitation

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: Training has been conducted with staff on existing procedures and is on-going. Updates to internal controls are still pending WINTAC finalization for case closures. It was identified in the review process that we needed to reference the RSA regulation for case closures from the Order of Selection deferred list and we are finalizing this.

Status: Corrective action is ongoing. See finding 2020-006.

2019-007 Subrecipient Monitoring

CFDA No.: 10.551 and 10.561

Program: Supplemental Nutrition and Assistance Program Cluster

Recommendations: We recommend that the Department perform the annual on-site review as required or consider revising their policy to include an annual risk assessment of subrecipients to determine the appropriate level of subrecipient monitoring.

Corrective Action Taken or Planned: Planned subrecipient monitoring in March 2020 was derailed by the pandemic that began in March and continues to the present. The SNAP office has since been inundated with the need to plan and adjust the operations of its eligibility staff, as well as implementing objectives such as SNAP emergency allotments and Pandemic EBT, all in response to COVID-19, and during a time where the SNAP office continues to not be at full staffing. The SNAP Office understands its obligation to ensure subrecipient monitoring and will plan for subrecipient monitoring as a desk review, subject to any changes with the current pandemic and related restrictions, beginning in December 2020 as on-site visits are discouraged

Department of Human Services
State of Hawaii
Summary Schedule of Prior Audit Findings (continued)
for the year ended June 30, 2020

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

during this period of COVID.

Status: Corrective action is ongoing. See finding 2020-007

This finding initially occurred in the fiscal year ended June 30, 2015

2019-008 EBT Reconciliation

CFDA No.: 10.551 and 10.561

Program: Supplemental Nutrition and Assistance Program Cluster

Recommendations: We recommend that the Department work with its EBT contractor to develop the necessary procedures in order to perform the required reconciliations.

Corrective Action Taken or Planned: Since February 2020, the Fiscal Management Office (FMO) has been doing daily reconciliation of the ASAP and Fidelity Information Services (FIS) report EBTDS408-1 “Daily ASAP Balancing.” Procedures are in place to ensure this continues

Status: Correction action is ongoing. See finding 2020-008

This finding initially occurred in the fiscal year ended June 30, 2019

2019-009 EBT Card Security

CFDA No.: 10.551 and 10.561

Program: Supplemental Nutrition and Assistance Program Cluster

Recommendations: We recommend the Department follow their policy to secure unissued EBT cards.

Corrective Action Taken or Planned: The EBT Office continues to do EBT Management Evaluation Reviews of the Processing Centers to ensure compliance with EBT Issuance, System Access, Inventory Controls, and Management of Procedures & Regulations. The EBT Office is on schedule to complete EBT Management Evaluation Reviews of all twenty (20) Processing Centers Statewide by December 2022.

Status: Corrective action is ongoing. See finding 2020-009

This finding initially occurred in the fiscal year ended June 30, 2019.

2019-010 Maintaining Proper Case Documentation to Support Eligibility Determinations

CFDA No.: 93.558

Program: Temporary Assistance for Needy Families Cluster

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

Department of Human Services
State of Hawaii
Summary Schedule of Prior Audit Findings (continued)
for the year ended June 30, 2020

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

Corrective Action Taken or Planned: The Department continues to work with Staff Development Office to properly train newly hired eligibility staffs. Also currently working on development of the Benefits Eligibility Solution (BES), the new eligibility system which will automate most of the processes and alerts.

Status: Corrective action is ongoing. See finding 2020-013

This finding initially occurred in the fiscal year ended June 30, 2014.

2019-011 Income Eligibility and Verification System

CFDA No.: 93.558

Program: Temporary Assistance for Needy Families Cluster

Recommendations: The Department should be more diligent in consistently following its policies and procedures.

Corrective Action Taken or Planned: The Department will continue to work with the Statewide Branch Administrator to enforce and ensure that all Eligibility staff follow current procedures on IEVS. The Department will also work with the Staff Development Office to emphasize the importance of IEVS to all eligibility staff and to provide clear instructions when changes in procedures occur.

Status: Corrective action is ongoing. See finding 2020-011

This finding initially occurred in the fiscal year ended June 30, 2019.

2019-012 Maintaining Proper Case Documentation to Support Compliance with Child Support Non-Cooperation Requirement

CFDA No.: 93.558

Program: Temporary Assistance for Needy Families Cluster

Recommendations: We recommend that the Department diligently perform the required procedures and to develop system controls to suspend benefits until non-cooperation is addressed.

Corrective Action Taken or Planned: The Department continues to work closely with the Statewide Branch Administration to monitor the monthly report of the noncompliance alerts received from the Child Support Enforcement Agency (CSEA). The State has been working with Unisys since October 2018 to develop the BESSD Integrated Eligibility System (BES), to replace HAWI, the existing eligibility system. BES will be developed to automate many of the manual tasks staff is currently performing to enable the Department to take timely action on CSEA issues. A possible function is an interface between BES and the CSEA IT system to exchange child support and paternity data. The system is expected to rollout in 2022.

Status: Corrective action is ongoing. See finding 2020-012.

Department of Human Services
State of Hawaii
Summary Schedule of Prior Audit Findings (continued)
for the year ended June 30, 2020

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

This finding initially occurred in the fiscal year ended June 30, 2014.

2019-013 Special Report

CFDA No.: 93.558

Program: Temporary Assistance for Needy Families Cluster

Recommendations: We recommend the Department include procedures to compare the MOE amount report on the ACF-204 and the ACF-196R to ensure compliance with Federal regulations.

Corrective Action Taken or Planned: The Department will continue to utilize the worksheet templates that were developed to record and classify actual expenditures on the ACF-196R and ACF-204 reports.

BESSD continues to receive guidance and technical assistance from ACF Region 9.

Status: This finding is no longer applicable.

2019-014 Quarterly Reporting

CFDA No.: 93.558

Program: Temporary Assistance for Needy Families Cluster

Recommendations: We recommend the Department update information into their system timely and accurately to ensure that the information reported is complete and accurate.

Corrective Action Taken or Planned: The Department will continue to communicate with the Statewide Branch Administration to remind Eligibility staff of application of policies and correct procedures when determining eligibility to ensure that the information reported is complete and accurate. The Department will also continue to work with the Staff Development Office to ensure financial training provides accurate information and instructions in determining a client's TANF eligibility. Effective tools such as situational examples, timetables, and other visual modalities to demonstrate clear explanations and understanding of the policies of TANF program will be utilized in training. The Department will also continue to closely monitor active cases by requesting monthly TANF data reports from the Office of Information Technology to show TANF cases that are nearing their 60 months as well as detailed reports on system coding errors to ensure updated information will be input timely.

Status: This finding is no longer applicable.

2018-005 Complete Eligibility Determinations in a Timely Manner

CFDA No.: 84.126

Program: Vocational Rehabilitation

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
Summary Schedule of Prior Audit Findings (continued)
for the year ended June 30, 2020

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

Corrective Action Taken or Planned:

1. DVR staff received training on the policy of 60-Day Eligibility Determination and Waiver Form associated with extensions for sustained compliance with this internal control. Supervisors monitor activity due reports monthly. Branch Administrators were provided the 4/22/19 corrective action plan Internal Communication Form (CAP ICF) and reviewed recommended updates in May 2019.
 - a. 4/22/2019 CAP ICF was revised July 5, 2019, to provide further clarification with instructions for staff to utilize the activity due report to plan closures or explore waiver extensions when applicable, for cases on the monthly activity due report with the 45th day marker identified for applicants not having a documented disability recorded before the 60-day eligibility required timeline.
2. DVR staff were provided training on the appropriate usage of the waiver form for extensions of the 60-day eligibility determination process after 4/22/2019 CAP ICF was reviewed with DVR leadership on May 6, 2019.
3. Counselors utilize the activity due report from Akamai/AWARE system to plan closures or extensions when applicable for cases on the monthly report with the 45th day marker identified and still not having a documented disability.
 - a. As directed by supervisor, support staff may be scheduling counselor appointments with clients 30 days after intake appointments, if appropriate, to obtain updates on the progress of the eligibility determination process with the client.
 - b. Clerical support staff will be provided a monthly list of SSI/SSDI recipients. This will assist the division in determining presumptive eligibility to enhance compliance with 60-day eligibility determination.
4. Supervisory staff will conduct monthly validation of sustained compliance for 60-day eligibility determination or implementation of waiver within this period and identify re-training needs as applicable for staff deviations. Supervisory staff utilize the activity due reports and case review instruments for validation of compliance.

Status: This finding is no longer applicable.

2018-006 Maintaining Proper Case Documentation to Support Eligibility Determinations

CFDA No.: 84.126

Program: Vocational Rehabilitation

Corrective Action Taken or Planned:

1. DVR supervisors review all eligibility determination documentation within the 60-day eligibility determination period (or during the extended eligibility waiver period of determination) for all direct reports, prior to case status movement to ensure the proper case documentation is compiled, accurate, and within established timelines for sustained compliance with internal controls.

Department of Human Services
State of Hawaii
Summary Schedule of Prior Audit Findings (continued)
for the year ended June 30, 2020

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

2. DVR will ensure clerical staff scan and upload supporting documentation in the participant's case record as requested by supervisor and/or counselors, with validation conducted by supervisor during monthly case reviews and review of activity due reports.
 - a. DVR staff were provided guidance and support on this corrective action for compliance with existing internal controls during Supervisor/Clerical Training on June 18, 2019.
3. DVR is tracking supervisors' monthly case reviews of open and closed cases by participant ID, case master ID, case type, with supervisors' review dates in a centrally verifiable folder for compliance and monitoring at Staff Support Office (550). In addition, the case review instrument is being updated to reflect Supported Employment, Service-E, Potentially Eligible, and the use of comparable benefits monitoring. DVR management is re-tooling the case review instrument to align with federal monitoring recommendations provided in June 2019.
 - a. DVR conducted 232 (HB-41, MB-66, SBB-48, OB-37, KB-40) case reviews statewide year to date for fiscal year 2019. DVR leadership met July 9, 2019 to review draft recommended improvements to case review instruments that will be submitted to WINTAC by end of July 2019 for technical assistance before scheduling training with supervisors in August 2019.
4. Supervisors are required to review documentation of eligibility determination to identify social security presumptive eligibility as reflected in uploaded documentation to the case record before issuing authorizations for all proposed expenditures.
 - a. Clerical support staff are provided access to a monthly list of SSI/SSDI recipients. This will assist the division in determining presumptive eligibility to enhance compliance with 60-day eligibility determination.
5. DVR SSO will prepare revised eligibility determination procedures and review with supervisors during July and August 2019. These procedures will reinforce supervisory approval of standardized letters with individualized edits for VR Counselor to communicate with participants the status of their eligibility determination as recommended by federal funders during on-site monitoring in June 2019.

Status: This finding is no longer applicable.

2018-007 Complete Individualized Plan for Employment in a Timely Manner
CFDA No.: 84.126
Program: Vocational Rehabilitation

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
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Summary Schedule of Prior Audit Findings (continued)
for the year ended June 30, 2020

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

Corrective Action Taken or Planned:

1. Counselors utilize the activity due report weekly to ensure compliance with timeliness in completing individualized plans for employment (IPE's) and scheduling follow up appointments. Counselors will also conduct monthly reviews with their supervisor or their designee on development of the IPE to ensure compliance associated with annual reviews of IPE's. IPE's should be signed by client and counselor, should include incorporated updates, and final updated signed copy is provided to client.
 - a. DVR staff were provided training on this corrective action for compliance with existing internal controls during Supervisor/Counselor Training on June 4, 2019.
2. DVR will issue procedures in the month of July 2019 for all IPE's to be approved by the supervisor prior to the signing and implementation of the initial IPE and annual updates to IPE.
3. Support staff assists with scheduling appointments with clients 30 days prior to the IPE activity due dates as requested by counselors and supervisors.
4. DVR enforces and monitors monthly case reviews by supervisors of open and closed cases by participant ID, case master ID, case type, and reviews completion in a centrally verifiable folder for compliance and monitoring at the Staff Support Office (550). The case review instrument is being re-tooled in July 2019 to reflect Supported Employment, Service-E, Potentially Eligible, the use of comparable benefits monitoring, and recommendations provided by federal funders during on-site monitoring in June 2019.
 - a. DVR conducted 232 (HB-41, MB-66, SBB-48, OB-37, KB-40) case reviews statewide year to date for fiscal year 2019.

Status: This finding is no longer applicable.

**2018-008 Benefit Payments in Accordance with Individualized Plan for Employment (IPE)
CFDA No.: 84.126
Program: Vocational Rehabilitation**

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:

1. Supervisors are reviewing all individualized plans for employment (IPE's) for directly reporting staff before issuing payments to ensure the services are on the active IPE and the signature page of the IPE is uploaded in AKAMAI.
 - a. Guidance and support were provided in Supervisor/Counselor Training on June 4, 2019.
2. DVR will issue procedures in the month of July 2019 for all IPE's to be approved by the supervisor prior to the signing and implementation of the IPE's for sustained compliance with internal controls.

Department of Human Services
State of Hawaii
Summary Schedule of Prior Audit Findings (continued)
for the year ended June 30, 2020

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

3. Clerical support staff per unit/section review all IPE's monthly to identify any deviation from having current signatures on IPE uploaded per case record, and immediately alert supervisor of all deviations identified for sustained compliance with internal controls.
 - a. DVR staff were provided guidance and support in Supervisor/Clerical Training on June 18, 2019. On-going monitoring will continue to validate sustained compliance with timelines for IPE updates and elimination of past-due activities on branch activity due reports.
4. The division has established compliance with monthly case reviews by supervisors of open and closed cases by participant ID, case master ID, case type, and review date in a centrally verifiable folder for compliance and monitoring at the Staff Support Office (SSO). In addition, the case review instrument is being updated to reflect Supported Employment, Service-E, Potentially Eligible, the use of comparable benefits monitoring, and recommendations provided by federal funders during on-site monitoring in June 2019.
 - a. DVR conducted 232 (HB-41, MB-66, SBB-48, OB-37, KB-40) case reviews statewide year to date for fiscal year 2019. Monthly case reviews will continue to be conducted by supervisors (5 each).

Status: This finding is no longer applicable.

2018-009 Maintaining Proper Case Documentation to Support Eligibility Determination

CFDA No.: 15.875

Program: Economic, Social, and Political Development of the Territories

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: As part of the business process transformation, Process Improvement Training and Instructional Design sessions are planned for August 2019 and forward.

Steering committee leaders continue to discuss and research policies and procedures for clarity for eligibility to simplify processes intended to establish, train, and maintain consistent and efficient processes. Decisions and alternative methods on how to communicate these policies and procedures continues to be discussed.

Status: Corrective action is ongoing. See finding 2020-014.

This finding initially occurred in the fiscal year ended June 30, 2017.

Department of Human Services
State of Hawaii
Summary Schedule of Prior Audit Findings (continued)
for the year ended June 30, 2020

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

2018-010 Tracking Earmarked Funds
CFDA No.: 93.667
Program: Social Services Block Grant

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.

Corrective Action Taken or Planned: To ensure compliance with earmarking requirements, the Department continues to re-establish the Management Information and Compliance Unit (MICU) by preparing the Unit Supervisor and additional MICU Monitor positions for recruitment while the existing MICU Monitor position is currently in the recruitment and selection process.

Status: This finding is no longer applicable.

2018-011 Subrecipient Monitoring
CFDA No.: 93.667
Program: Social Services Block Grant

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

Corrective Action Taken or Planned: To ensure compliance with subrecipient monitoring requirements, the Department has finalized the revised Management Information and Compliance Unit (MICU) policies and procedures to include a more comprehensive and detailed work-flow process. As part of the revised policies and procedures, a Provider Training and Training Plan has been developed and implemented by the Department as of June 26, 2019. The training is scheduled to occur twice a year, once prior to the start of the fiscal year and once mid-fiscal year as a refresher training.

Status: This finding is no longer applicable.

2018-015 Proper Determination of Benefit Amount
CFDA No.: 93.659
Program: Adoption Assistance

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: Random case reviews were conducted from October 2018 through March 2019 with a total of 62 Adoption Assistance (AA) payment files reviewed. Of those 62 files reviewed, the most common error found was that the dollar amounts in the computer system did not match the dollar amounts agreed to on the hard copy AA Agreement in the case file.

Department of Human Services
State of Hawaii
Summary Schedule of Prior Audit Findings (continued)
for the year ended June 30, 2020

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

The reason for this finding is due to the across the board increase in the board rate in which staff did not have time to modify the increased board rate on the hard copy AA Agreement in the thousands of AA files. The process to update the hard copy AA agreement will require a meeting with the adoptive parent to explain the increase in AA and obtaining a new signature. There were gaps in the reviews as the sections were not able to respond to the request for the review and time lapsed waiting for a response.

Due to other priorities and shortage of staff for Program Development (PD) office and Child Welfare Services (CWS) branch during December 2018, retraining for staff did not occur until May 2019.

After January 2019, CWS decided to halt the reviews until staff were retrained due to recurring errors from the reviews such as overpayments and underpayments due to the change in foster board rates, differing amounts on the Difficulty of Care (DOC) worksheets, documents that were not signed, and many other errors too numerous to list.

After discussion with administration and Continuous Quality Improvement (CQI), CWS decided that supervisors, Social Services Assistant IV's (SSAIVs), and section administrators should be re-trained first on the correct inputting of data, documents to be included in the AA file, calculation of AA documents, checking and ensuring that proper signatures were obtained, and making the necessary changes to eliminate the errors and minimize errors.

During the May 2019 quarterly SSAIV meeting attended by the Branch Administrator, some section administrators, some supervisors, and PD staff, they were instructed on what to look for in the files, how to correct it, and what should be included in the files. A checklist of documents that belongs in each AA file was given to each attendee. PD shared the results and common errors that were found from the reviews with staff at the SSAIV meeting.

Since staff have been re-trained, the monthly reviews will resume in July 2019 and continue until improvement is made for the sections. Moving forward with monitoring of its progress with this matter, CWS's plan includes supervisors and section administrators providing monthly reports to the CWS Branch and PD office on the number of cases reviewed and corrections made in preparation for the review by CQI and PD.

Although this will go beyond the end date of June 2019, CWS is committed to improve in this area and will decide if this process will continue indefinitely and become a Quality Assurance (QA) method for the AA reviews.

Status: This finding is no longer applicable.

Department of Human Services
State of Hawaii
Summary Schedule of Prior Audit Findings (continued)
for the year ended June 30, 2020

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

2018-016 Schedule of Expenditures of Federal Awards (SEFA)

CFDA No.: 93.558

Program: TANF Cluster

Recommendations: The Department should establish formal procedures of compiling the Schedule of Expenditures of Federal Awards.

Corrective Action Taken or Planned: Adjustments have been made to the Temporary Assistance for Needy Families (TANF) worksheets for a more comprehensive recording of grant amounts and expenditures reported to the federal government.

Status: This finding is no longer applicable.

2018-017 Suspension and Debarment

CFDA No.: 84.126

Program: Rehabilitation Services - Vocational Rehabilitation Grants to States

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:

1. Due to limitations of Excluded Parties List System (EPLS), DVR has used the SAM (System of Award Management) at <https://www.sam.gov/SAM/> and the state Hawaii Compliance Express system (HCE) for all new and newly executed contracts.
2. Contract Managers and Administrator will conduct annual review for compliance with required documentation.

Status: This finding is no longer applicable.

2018-018 Maintaining Proper Case Documentation to Support Eligibility Determinations

CFDA No.: 93.659

Program: Adoption Assistance

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: Random case reviews were conducted from October 2018 through March 2019 with a total of 62 Adoption Assistance (AA) payment files reviewed. Of those 62 files reviewed, the most common error found was that the dollar amounts in the computer system did not match the dollar amounts agreed to on the hard copy AA Agreement in the case file.

The reason for this finding is due to the across the board increase in the board rate in which staff did not have time to modify the increased board rate on the hard copy AA Agreement in the thousands of AA files. The process to update the hard copy AA agreement will require a meeting

Department of Human Services
State of Hawaii
Summary Schedule of Prior Audit Findings (continued)
for the year ended June 30, 2020

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

with the adoptive parent to explain the increase in AA and obtaining a new signature. There were gaps in the reviews as the sections were not able to respond to the request for the review and time lapsed waiting for a response.

Due to other priorities and shortage of staff for Program Development (PD) office and Child Welfare Services (CWS) branch during December 2018, retraining for staff did not occur until May 2019.

After January 2019, CWS decided to halt the reviews until staff were retrained due to recurring errors from the reviews such as overpayments and underpayments due to the change in foster board rates, differing amounts on the Difficulty of Care (DOC) worksheets, documents that were not signed, and many other errors too numerous to list.

After discussion with administration and Continuous Quality Improvement (CQI), CWS decided that supervisors, Social Services Assistant IV's (SSAIVs), and section administrators should be re-trained first on the correct inputting of data, documents to be included in the AA file, calculation of AA documents, checking and ensuring that proper signatures were obtained, and making the necessary changes to eliminate the errors and minimize errors.

During the May 2019 quarterly SSAIV meeting attended by the Branch Administrator, some section administrators, some supervisors, and PD staff, they were instructed on what to look for in the files, how to correct it, and what should be included in the files. A checklist of documents that belongs in each AA file was given to each attendee. PD shared the results and common errors that were found from the reviews with staff at the SSAIV meeting.

Since staff have been re-trained, the monthly reviews will resume in July 2019 and continue until improvement is made for the sections. Moving forward with monitoring of its progress with this matter, CWS's plan includes supervisors and section administrators providing monthly reports to the CWS Branch and PD office on the number of cases reviewed and corrections made in preparation for the review by CQI and PD.

Although this will go beyond the end date of June 2019, CWS is committed to improve in this area and will decide if this process will continue indefinitely and become a Quality Assurance (QA) method for the AA reviews.

Status: This finding is no longer applicable.

PART VI
CORRECTIVE ACTION PLAN

DAVID Y. IGE
GOVERNOR



CATHY BETTS
DIRECTOR

JOSEPH CAMPOS II
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF HUMAN SERVICES
Office of the Director
P.O. Box 339
Honolulu, Hawaii 96809-0339

AQCRO 21.003

March 8, 2021

Mr. Wilcox Choy, Partner
KMH LLP
1003 Bishop Street
Suite 2400
Honolulu, Hawaii 96813

Dear Mr. Choy:

In accordance with 2 CFR 200.511(c), we have enclosed the Department of Human Services' views of responsible officials and corrective action plans related to the State Fiscal Year (SFY) 2020 audit report findings and recommendations.

If you have any questions regarding these corrective action plans or need assistance in other areas of the SFY 2020 audit, please contact Mrs. Vickie Edu at (808) 586-4878.

Sincerely,

A handwritten signature in black ink, appearing to read "Cathy Betts".

Cathy Betts
Director

Enclosure

State of Hawaii
 Department of Human Services
 Corrective Action Plans for Findings and Recommendations
 For the State Fiscal Year Ended June 30, 2020

Finding	Views of Responding Officials, Corrective Action Plans, Expected Completion Date, Responding Officials
2020-001	<p>Views of responsible officials: The Department agrees with the finding and will implement corrective action.</p> <p>Corrective Action Taken or Planned: We will be conducting training on the lapsing worksheet calculation process to ensure that fringe benefits and amounts to lapse to the state treasury are properly accounted for.</p> <p>Expected Completion Date: On-going</p> <p>Responding Officials: Derek Oshiro, FMO Chief Accountant</p>
2020-002	<p>Views of responsible officials: Based on the context detailed here, we find that the vast majority, 99%, of all eligibility applications received were processed in a timely manner. We also understand that the data collected indicates 90% of all re-verifications happened in a timely manner. Additionally, Hawaii applied for and was granted a waiver to delay processing eligibility redeterminations (ERs) during the Health and Human Services declared Public Health Emergency (PHE) in order to leverage the 6.2% increased federal cost-share available to states under the Families First Coronavirus Response Act (FFCRA). States were required to ensure that all individuals who were either enrolled or became enrolled on or after March 18, 2020 remained enrolled during the PHE. The PHE has been extended several times and is currently scheduled to end April 20, 2021. This rule changed the way we currently approach eligibility redeterminations in order to maintain active enrollments during the PHE.</p> <p>Corrective Action Taken or Planned: CMS has recently provided new guidance on how to redetermine eligibility while maintaining enrollment during the PHE. MQD is developing plans for how we will unwind from the PHE once it ends including how we will act on eligibility redeterminations. We just began redeterminations for passive renewals in February 2021. Additionally, we have completed the creation of new training materials that further reinforce the steps for timely eligibility determinations and redeterminations.</p> <p>Expected Completion Date: These efforts are on-going and we anticipate full restoration of our eligibility redetermination schedule at the conclusion of the PHE.</p> <p>Responding Official: Lori Lei Aponte, MQD Eligibility Branch Administrator (TA)</p>
2020-003	<p>Views of responsible officials: The Department agrees with the finding and will implement corrective action.</p> <p>Corrective Action Taken or Planned: We will take steps to establish policies and procedures to gather information from each Managed Care Organization (MCO) on overpayments that are both discovered and recovered. Revisions were made to the MCO request for proposals (RFPs) to clarify that identified overpayments must be</p>

State of Hawaii
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 Corrective Action Plans for Findings and Recommendations
 For the State Fiscal Year Ended June 30, 2020

Finding	Views of Responding Officials, Corrective Action Plans, Expected Completion Date, Responding Officials
	<p>reported in full, not only recovered overpayments. MQD is working on developing new reports for the health plans which delineate identified overpayments. The policies need to ensure amounts are not reported twice.</p> <p>Expected Completion Date: June 30, 2022</p> <p>Responding Official: Eric Nouchi, MQD Finance Officer</p>
2020-004	<p>View of responsible official: The Department agrees with the findings and will implement corrective action. The Department has shared with the auditors in the past that the section that is responsible for provider enrollment continues to be short-staffed. Currently, there is a temporarily assigned (TA) supervisor, a single full-time contract specialist, and two full-time clerical staff. Two open contract specialist professional positions continue to be vacant and these vacancies have contributed to the lack of diligence in complying with the policies and procedures. With an effective on-going hiring freeze because of the COVID-19 public health emergency, the section is struggling to continue to meet the 42 CFR requirements.</p> <p>Corrective Action Taken or Planned: The Department went live with HOKU, our new web-based provider enrollment system, on August 3, 2020 after several delays from the initial go-live date of March 2020. The HOKU system is expected to allow the Department to adhere to and comply with the policies and procedures outlined in 42 CFR 455 Subparts B and E. We decided on and completed a phased go-live approach in December 2020, recognizing the limited staffing that is available to the Department to register providers into HOKU. This approach had the Department sending HOKU registration 'invitation' letters to providers in four approximately equal-sized 'waves' based on provider type, occurring from go-live until the end of 2020. We continue to partner with our vendor Koan to staff the provider call center and provider application processing. Provider training for the HOKU system is accomplished via a three-prong approach – 'live' scheduled webinar training, YouTube training videos, and PDF slide deck training - all of which can be accessed from our HOKU website at https://medquest.hawaii.gov/HOKU. The Department has an assigned Project Manager to manage the HOKU project implementation and operational aspects, and has additionally assigned a TA supervisor for the provider enrollment section in the latter part of 2019 to provide daily oversight as well as management and problem solving around the HOKU implementation. Development of an internal staff library of policies and procedures is on-going and will be made available to all staff and vendors working on provider enrollment. Internal staff meetings continue to be held daily to identify provider enrollment issues and solution development and include the vendor Koan on an intermittent basis. Daily post go-live calls have converted to weekly with the HOKU vendor CNSI to address ongoing system updates, problems, and needed configuration. As of mid-February</p>

State of Hawaii
 Department of Human Services
 Corrective Action Plans for Findings and Recommendations
 For the State Fiscal Year Ended June 30, 2020

Finding	Views of Responding Officials, Corrective Action Plans, Expected Completion Date, Responding Officials
	<p>2021, the Department has completed the registration of 853 providers.</p> <p>Expected Completion Date: On-going, tentatively the end of 2021.</p> <p>Responding Official: Jon Fujii, MQD Health Care Services Branch Administrator</p>
2020-005	<p>Views of responsible officials: The Department agrees with the finding and corrective action will be implemented.</p> <p>Corrective Action Taken or Planned:</p> <ol style="list-style-type: none"> 1. DVR has drafted internal control updates, “FFY21 Annual Allocation of Program Income for allowable, reasonable, and allocable expenditures in compliance with federal and state regulations, as overseen by DVR management in collaboration with DHS FMO Accountant” expected to be updated and finalized by May 31, 2021 and will include clarification in procedures of roles and responsibilities of staff and proper tracking, reporting, and disbursement of program income prior to drawdown of Federal funds. This update will reference existing internal controls, including DVR’s Period of Performance procedures. 2. DVR will continue to work with State Budget and Finance for guidance on State policies associated with federal requirements for program income spending and period of performance. 3. DVR is also working with Rehabilitation Services Administration (RSA) and/or WINTAC to obtain technical assistance with federal funder to ensure updates of Program Income internal controls for policies and procedure are in compliance with the most current federal and state regulations. 4. DVR Staff Services Office (SSO) Subject Matter Expert (SME) will partner with FMO accountant to provide all applicable staff with training and guidance on the proper tracking, reporting, and disbursement of program income. 5. Copies of staff training logs will be maintained by DVR SSO for all staff. <p>Expected Completion Date: June 2021</p> <p>Responding Officials: Maureen Bates, VR Administrator and Iva Cain, VR Assistant Administrator</p>

State of Hawaii
 Department of Human Services
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2020-006	<p>Views of responsible officials: The Department agrees with the finding and corrective action will be implemented.</p> <p>Corrective Action Taken or Planned:</p> <ol style="list-style-type: none"> 1. DVR issued an <u>ICF Directive: Timeliness for Processing Applications, Eligibility Determinations and the Individualized Plans for Employment</u> in February 2021 to reaffirm DVR’s commitment to and compliance with both Federal Regulations and State Policy that ensure the timeliness of services during the VR process specific to referral, application, eligibility determination and development of the Individualized Plan for Employment (IPE). This document reinforces the timelines for eligibility determinations (60 days from date of application), IPE development (signed within 90 days of eligibility determination) and the need for source documentation to validate activity at each level of the VR process (clearly identified, labeled, and uploaded into Aware as well as filed in hard copy case file). <p>All Branch Administrators (BA) are required to review with staff by March 31, 2021 and submit to Staff Services Office (SSO) (template provided by SSO) verification signed by all VR staff, as applicable, that they have reviewed and understand the timelines and documentation required at each level of activity, uploading into Akamai-Aware with proper labeling of documents, and filing the documents in the hard copy case file.</p> 2. All staff will be required to review the following federal and regulations and Hawaii Administrative Rules (HAR): <ol style="list-style-type: none"> a. 34CFR 361.41 – Processing referrals and applications b. 34 CFR 361.42 – Assessment for determining eligibility and priority for services c. 34 CFR 361.43 – Procedures for Ineligibility Determination d. 34CRF 361.44 – Closure without Eligibility Determination e. 34CFR 361.45 – Development of the individualized plan for employment f. 34CFR 361.46 – Content of the individualized plan for employment g. 34CFR 361.47 – Record of Services h. HAR 401.1-3 – Information and referral i. HAR 401.1-4 – Referral and Application j. HAR 401.1-7 – Assessment for Determining Eligibility and Priority for Services k. HAR 401.1-10 – Development of the Individualized Plan for Employment
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	<ul style="list-style-type: none">l. HAR 401.1-11 – Content of the Individualized Plan for Employmentm. HAR 401.1-34 – Record of Servicesn. HAR 401.1-36- Requirements for Successful Closureso. Procedure: Evaluation of Competitive Integrated Employment, issued November 2, 2020p. Procedure: Performance Indicators Post-Exit Data Collection and Reporting, issued November 16, 2020 <p>By April 16, 2021, Branch Administrators will be required to submit to SSO verification (template provided by SSO) signed by all VR staff, as applicable, that they have read and understand these policies and are committed to uphold the requirements in these policies.</p> <p>3. SSO staff will issue “HDVR Case File Document Checklist” and instructions in March 2021 to ensure that reportable individuals and participants of the vocational rehabilitation program have a case service record that is complete and conforms to the timeliness and documentation requirements per DVR’s internal control/quality assurance/future audit purposes and RSA’s compliance requirements. The Case File Documents Checklist is a tool designed to ensure case file documentation is accounted for upon case closure. A working copy of the Case File Documents Checklist is to be maintained in the hard copy case file and uploaded into Akamai-Aware only at time of closure and labeled accordingly.</p> <p>4. SSO will finalize updates to referral and application procedures by July 2021 to include internal controls that reinforce effective practices and ensure state-wide standardization of the referral and application process, upload and filing of required documentation, and implementing checks and balances to avoid discrepancies in dates found on hard copy documents and Akamai-Aware system of record.</p> <p>All Branch Administrators will be required to review the procedures with staff after they are finalized and submit to SSO (template provided by SSO) verification signed by all VR staff, as applicable, that they have reviewed and understand the eligibility determination procedures.</p> <p>Training and/or review may be provided by SSO trainer and SSO subject matter expert (SME) if it is found necessary after Branches have had the opportunity to review published procedures. Frequently Asked Questions (FAQ) document will be maintained by SSO staff and made available to all staff on an on-going basis.</p>
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	<p>5. SSO will finalize updates to eligibility determination procedures by Fall 2021 to include internal controls that reinforce effective practices and ensure state-wide standardization of timely eligibility determinations within 60 days from the date of application, proper evaluation and implementation of extensions, and/or trial work experience (TWE) as needed and implementing checks and balances to avoid discrepancies in dates found on hard copy documents and Akamai-Aware system of record.</p> <p>All Branch Administrators will be required to review the procedures with staff after they are finalized and submit to SSO (template provided by SSO) verification signed by all VR staff, as applicable, that they have reviewed and understand the eligibility determination procedures.</p> <p>Training and/or review may be provided by SSO trainer and SSO subject matter expert (SME) if it is found necessary after Branches have had the opportunity to review published procedures. Frequently Asked Questions (FAQ) document will be maintained by SSO staff and made available to all staff on an on-going basis.</p> <p>6. DVR/SSO will finalize updates to IPE development procedures by Spring 2022 to include internal controls that reinforce effective practices and ensure state-wide standardization of timely IPE development within 90 days from the date of eligibility determination, proper evaluation and implementation of IPE extensions as needed and implementing checks and balances to avoid discrepancies in dates found on hard copy documents and Akamai-Aware system of record.</p> <p>All Branch Administrators will be required to review the procedures with staff after they are finalized and submit to SSO (template provided by SSO) verification signed by all VR staff, as applicable, that they have reviewed and understand the eligibility determination procedures.</p> <p>Training and/or review may be provided by SSO trainer and SSO subject matter expert (SME) if it is found necessary after Branches have had the opportunity to review published procedures. Frequently Asked Questions (FAQ) document will be maintained by SSO staff and made available to all staff on an on-going basis.</p> <p>7. VR is working with San Diego State University to complete training for eligibility determination and IPE development by the end of calendar year 2021 and implementation of training modules for provision of all VR services. Estimated completion date December 2022.</p>
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	<ol style="list-style-type: none">8. All BAs and/or supervisors will utilize the Activity Due Reports to check timely application input, eligibility determination, and IPE development and report their branch status to VRA on a monthly basis.9. All BAs and/or supervisors will continue to conduct 5 audits monthly on active VR cases and record in DVR sharepoint site under each branch's applicable folder located at: DHS DVR-Resources → Documents → CASE REVIEW → MONTHLY BRANCH CASE REVIEWS for VRA, VRAA and SSO review. Reviews at the Branch level will include the following but is not limited to reviewing of all eligibility determination documentation within the 60-day eligibility determination period (or during the extended eligibility waiver period of determination), all IPEs meet 90-day development and meet all prescribed requirements according to policy, review of purchases and services provided, review of employment placement, review of proper supporting documentation and that dates align with Akamai-Aware dates, and review of case notes thoroughly documenting the services provided for sustained compliance with policy and internal controls.10. BAs and/or supervisors will review all case closures utilizing Case Closure checklist to evaluate all case closures and confirm timeliness, supporting documentation including but not limited to application, eligibility determination, IPE development, evaluation documents for competitive integrated employment, employment start date, employment at closure, etc. and status and appropriateness of the closure. Signed case closure checklist will be uploaded into Akamai-Aware, labeled appropriately, and filed in hard copy case file upon approval of closure.11. DVR will utilize support staff to:<ol style="list-style-type: none">a. Schedule appointments with clients and, if appropriate, to provide updates on the progress of the eligibility determination process with the client.b. Administrative support staff will be provided a monthly list of SSI/SSDI recipients. Assist the division in determining presumptive eligibility by utilizing regularly provided list of SSI/SSDI recipients.c. Scan and upload supporting documentation in the participant's case record as requested by supervisor and/or VRS.12. DVR will enforce monthly case reviews by supervisors of open and closed cases by participant ID, case master ID, case type, and review date in a centrally verifiable folder for compliance and monitoring at SSO. In addition, the case
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	<p>review instrument will be updated to reflect Supported Employment, Service-E, Potentially Eligible and the use of comparable benefits monitoring. SSO staff will conduct random audits monthly and maintain verification in DHS DVR-Resources → Documents → CASE REVIEW → MONTHLY BRANCH CASE REVIEWS</p> <p>Training may be conducted by SSO SME as necessary depending on audit findings.</p> <p>13. Compliance with DVR’s internal controls for eligibility determination will be added to VRS and Supervisor’s annual performance expectations and reviewed quarterly by their supervisor with supervisory discussion notes reflecting compliance or non-compliance for all referenced staff.</p> <p>Expected Completion Date: April 2022</p> <p>Responding Officials: Maureen Bates, VR Administrator and Iva Cain, VR Assistant Administrator</p>
2020-007	<p>View of responsible official: The Department agrees with the finding and corrective action will be implemented.</p> <p>Corrective Action Taken or Planned: On-site reviews will be conducted beginning March 15, 2021. Review will include monitoring of activities to ensure funds are used for authorized purposes and in compliance with federal statutes, regulations, and the terms and conditions of the subaward. Review will also include verification that performance goals are achieved and that financial and performance reports are available.</p> <p>Expected Completion Date: September 30, 2021</p> <p>Responding Official: Manuel Banasihan, BESSD SNAP Administrator (TA)</p>
2020-008	<p>Views of responsible officials: We concur with the findings of the audit. We were notified of the corrective actions that needed to take place at the end of the fiscal year 2019 audit. The daily EBT reconciliation started to take place immediately after.</p> <p>Corrective Action Taken or Planned: We are currently in the process of creating additional reports that will breakdown the daily issuances by individuals. This will help us identify any variances that may show up when doing the daily reconciliation. The daily reconciliations will be reviewed by a supervisor to ensure completeness and that it was done in a timely manner. We will continue to do the EBT reconciliation on a daily basis. Written procedures will be created in the case that there is a transition of duties or personnel.</p>

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	<p>Completion Date: As soon as the reports are created, we will look at the variances within the reconciliation.</p> <p>Responding Officials: Joey Wong, FMO Accountant</p>
2020-009	<p>View of responsible official: The Department agrees with the finding and have already implemented corrective action.</p> <p>Corrective Action Taken or Planned: EBT Project Manager, Sabrina Young, has reviewed the EBT Card Security Policy and Procedures with each of the two Section Administrators who directly oversee each of the two units that were cited for not having the unissued EBT cards locked up. Each of these two Section Administrators then reviewed the policy and procedures with the unit Supervisors and reminded them to enforce the EBT card security policy and procedures at all times. Please see response from each unit Supervisor:</p> <p><u>Response from unit Supervisor, Marci Baker, of the Wahiawa Processing Center (PC):</u> On February 8th, Ms. Baker reviewed the policy and findings with both clerical at the Wahiawa PC. Since this is the second occurrence of the same finding in a two-year period, she stressed the importance of maintaining card security at all times. The following directive has been issued: Between any card issuances, the EBT card drawer will remain locked. Further, Ms. Baker will be conducting periodic checks on the drawer security and maintaining a log of these checks. In the event that there are issues, Ms. Baker will have a follow-up conversation with the clerical to reiterate the directive.</p> <p><u>Response from unit Supervisor, Raylene Sumimoto, of the OR&L Processing Center:</u> Since the Spring of 2020, the supervisors and clerical staff at OR&L have been diligent in safeguarding the cards. An Office Assistant (OA) IV, Linda, has been primarily responsible for the bulk inventory of blank cards. She breaks it up into packs of 25 cards. Only a pack of 25 cards is taken out at a time and the rest are locked in the filing cabinet. That pack of 25 cards goes to another OA IV, Darrah, who keeps them secured at her desk. Supervisors also check the vertical filing cabinet throughout the day where the cards are kept to ensure that the lock is pushed in indicating that it is locked.</p> <p>To limit the number of staff handling the EBT cards, Linda and the other OAs issue only EBT cards through the system. Only one OA, mainly Darrah, at a time has access and issue card from the daily inventory. When Darrah leaves her desk, she locks it and brings the key with her at all times.</p> <p>The EBT Project Manager, Sabrina Young, also reviewed the EBT Card security policy and procedures with the Branch Administrator and Assistant Branch Administrator</p>

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	<p>who reminded all units to follow the policies and procedures that are in place for EBT card security.</p> <p>Completion Date: February 2021</p> <p>Responding Official: Sabrina Young, BESSD EBT Project Manager</p>
2020-010	<p>View of responsible official: The Department agrees with the finding and will implement corrective action.</p> <p>Corrective Action Taken or Planned: Our plans to reduce and/or eliminate these errors will include:</p> <ol style="list-style-type: none"> 1. Training of all Social Service Assistant staff about what needs to be filed in the case file using the Permanency Assistance Checklist, and the following: <p>CWS staff shall double-check that the amount of the guardianship payment and the amount of the Difficulty of Care (DOC) payment, if applicable, match the amount on the Agreement and DOC worksheet, and in the Child Protective Services System (CPSS):</p> <ol style="list-style-type: none"> a. Ensure eligibility supporting documents (including the child’s birth certificate, court order, consent form and 6 months of foster board IV-E eligibility) are present in the case record. b. Supervisors shall review the forms and confirm that the amounts match, then authorize payments in CPSS. c. Child Welfare Services Branch (CWSB) shall monitor and conduct monthly, random reviews of a minimum of twenty IV-E guardianship assistance payment cases per Section: <ol style="list-style-type: none"> i. Staff from the Specialized Workload Assessment Team (SWAT) will be utilized monthly to review cases from statewide sections to ensure documents are present in case records ii. If there are discrepancies in the amounts, staff will correct the amounts and enter the corrected amounts into CPSS. iii. If the Agreements do not contain the correct amount, staff will contact the guardian and explain what the correct amount should be and obtain the signature of the guardian(s) on the amended Agreement.

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	<p>Findings will be shared with the assigned Section Administrator and Child Welfare Services Branch Administrator (CWSBA) for inclusion in individual staff/supervisor meetings.</p> <ol style="list-style-type: none"> 2. Training of Licensing staff to ensure all state, FBI, and/or child abuse and neglect clearances are included in the licensing files with the following: <ol style="list-style-type: none"> a. Certify all clearances are valid. If no valid clearance on record, staff shall conduct clearances immediately of those that have expired. <p>Note: CWSB is in the process of modernizing the resource home licensing data base. This will allow for documents in licensing files to be uploaded to a website for easier access and monitoring/tracking of document completion and record placement.</p> 3. Regular reminders and follow-up discussions shall occur with all staff responsible for case files content, through individual monthly supervision and retraining as necessary, emphasizing diligence in ensuring that all forms are properly signed and present in case files. <p>Expected Completion Date: June 30, 2022</p> <p>Responding Official: Bernadette Lane, SSD Assistant Program Administrator</p>
2020-011	<p>View of responsible official: The Department agrees with the finding and will implement corrective action.</p> <p>Corrective Action Taken or Planned: Financial Assistance Program (FAP) will work with the Staff Development Office and Statewide Branch Administrator to ensure that all Eligibility Workers are trained and reminded how to properly access, review, take appropriate and timely action, document findings, and secure IEVS data and reports. The FAP and SNAP offices will also issue an annual Policy Clarification on reviewing and safe-handling procedures of IEVS data and reports.</p> <p>Expected Completion Date: On-going</p> <p>Responding Official: Elisa Furtado-Fische, BESSD Program Specialist</p>
2020-012	<p>View of responsible official: The Department agrees with the finding and will implement corrective action.</p> <p>Corrective Action Taken or Planned: The Department is currently building a new system which will incorporate non-compliance notification from the CSEA. The system will de-authorize the TANF payment and issue appropriate closure notice which will include what steps the client has to take to resolve the non-compliance issue. The new system should be rolled out by the latter half of 2021 and hopefully</p>

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	<p>this will resolve this issue. Until the new system rollout, the program office will stress training and documentation.</p> <p>Expected Completion Date: On-going</p> <p>Responding Official: Cheryl Chang, BESSD Eligibility Program Specialist</p>
2020-013	<p>View of responsible official: The Department agrees with the finding and will implement corrective action.</p> <p>Corrective Action Taken or Planned: The Department will begin to have team leaders review cases for completeness and documentation to support eligibility determination. Training should emphasize the importance of case documentation. Documents should be promptly filed in the electronic case file. Team leaders, Branch administrators, and the training office will be reminded to inform staff of the importance of the eligibility worker documenting and filing documents used in eligibility determination.</p> <p>Expected Completion Date: On-going</p> <p>Responding Official: Cheryl Chang, BESSD Eligibility Program Specialist</p>
2020-014	<p>View of responsible official: The Department agrees with the specific finding of this case and will implement corrective action.</p> <p>Corrective Action Taken or Planned: Med-QUEST Eligibility Branch Administrator will reissue the relevant Program and Policy Directive and reinforce document retention to properly support determinations.</p> <p>Expected Completion Date: April 1, 2021</p> <p>Responding Official: Lori Lei Aponte, MQD Eligibility Branch Administrator (TA)</p>