

STATE OF HAWAII

SINGLE AUDIT OF FEDERAL FINANCIAL ASSISTANCE PROGRAMS

FOR THE FISCAL YEAR ENDED JUNE 30, 2020



CURT T. OTAGURO
COMPTROLLER

Independent Audit Contracted and Administered by
Office of the State Auditor

State of Hawaii
Single Audit of Federal Financial Assistance Programs
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**SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS AND UNIFORM GUIDANCE COMPLIANCE REPORTS**



**Report of Independent Auditors 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***

The Auditor
State of Hawaii

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Hawaii (the State) as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the State's basic financial statements and have issued our report thereon dated December 30, 2020.

Our report includes a reference to other auditors who audited the financial statements of the Department of Transportation – Airports and Harbors Divisions, which are major enterprise funds; the Hawaii Employer-Union Health Benefits Trust Fund, the Water Pollution Control Revolving Fund, and the Drinking Water Treatment Revolving Loan Fund, which are nonmajor enterprise funds; and the Hawaii Public Housing Authority, the Hawaii Community Development Authority, and the Hawaii Health Systems Corporation, which are discretely presented component units, as described in our report on the State's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify certain deficiencies in internal controls that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as Finding No. 2020-003 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as Findings No. 2020-001 and 2020-002 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

State's Response to Findings

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



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.

Accuity LLP

Honolulu, Hawaii
December 30, 2020



**Report of Independent Auditors on Compliance for Each Major Program,
Internal Control Over Compliance, and the Schedule of Expenditures
of Federal Awards Required by the Uniform Guidance**

The Auditor
State of Hawaii


Report on Compliance for Each Major Federal Program

We have audited the State of Hawaii's Department of Accounting and General Services, Department of Agriculture, Department of Budget and Finance, Department of Business, Economic Development and Tourism, Department of Commerce and Consumer Affairs, Department of Defense, Department of Human Resources Development, Department of Labor and Industrial Relations, Department of Land and Natural Resources, Department of Public Safety, Department of Taxation, and the Governor's Office (collectively, the State) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the State's major federal programs for the year ended June 30, 2020. The State's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

The State of Hawaii's basic financial statements include, among other departments and agencies, the operations of: Department of the Attorney General, Department of Education, Department of Hawaiian Home Lands, Department of Health, Department of Human Services, Department of Transportation, Drinking Water Treatment Revolving Loan Fund, Hawaii Community Development Authority, Hawaii Employer-Union Health Benefits Trust Fund, Hawaii Health Systems Corporation, Hawaii Housing Finance and Development Corporation, Hawaii Hurricane Relief Fund, Hawaii Public Housing Authority, Hawaii Tourism Authority, Judiciary, University of Hawaii, and the Water Pollution Control Revolving Fund. These entities expended \$3,657,663,173 in federal awards, which are not included in the accompanying schedule of expenditures of federal awards for the year ended June 30, 2020. Our audit, described below, did not include the operations of the Department of the Attorney General, Department of Education, Department of Hawaiian Home Lands, Department of Health, Department of Human Services, Department of Transportation, Water Treatment Revolving Loan Fund, Hawaii Community Development Authority, Hawaii Employer-Union Health Benefits Trust Fund, Hawaii Health Systems Corporation, Hawaii Housing Finance and Development Corporation, Hawaii Hurricane Relief Fund, Hawaii Public Housing Authority, Hawaii Tourism Authority, Judiciary, University of Hawaii, and the Water Pollution Control Revolving Fund, because these units

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separately engaged auditors to perform audits in accordance with Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), or did not require an audit in accordance with the Uniform Guidance.

Management’s Responsibility

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

Auditors’ Responsibility

Our responsibility is to express an opinion on compliance for each of the State’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 the 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 State’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for major federal programs. However, our audit does not provide a legal determination of the State’s compliance.

Basis for Qualified Opinion on Major Federal Program

As described in the accompanying schedule of findings and questioned costs, the State did not comply with requirements regarding Catalog of Federal Domestic Assistance (CFDA) Numbers 17.225 and COVID-19 17.225, *Unemployment Insurance*, as described in Finding No. 2020-005 for special tests and provisions. Compliance with such requirements is necessary, in our opinion, for the State to comply with the requirements applicable to those programs.

Qualified Opinion on Major Federal Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion on Major Federal Program section, the State 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 above for the year ended June 30, 2020.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the State complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditors’ 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 Findings No. 2020-004, 2020-006, and 2020-007. Our opinion on each major federal program is not modified with respect to these matters.

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

Report on Internal Control Over Compliance

Management of the State 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 State's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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 State's internal control over compliance.

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding No. 2020-005 to be a material weakness.



A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Findings No. 2020-004, 2020-006 and 2020-007 to be significant deficiencies.

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

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

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Hawaii as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the State of Hawaii's basic financial statements. We issued our report thereon dated December 30, 2020, which contained unmodified opinions on those financial statements. We did not audit the financial statements of the Department of Transportation – Airports and Harbors Divisions, the Hawaii Employer-Union Health Benefits Trust Fund, the Water Pollution Control Revolving Fund, the Drinking Water Treatment Revolving Loan Fund, the Hawaii Public Housing Authority, the Hawaii Community Development Authority, and the Hawaii Health Systems Corporation. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. As described in Note 4 to the schedule of expenditures of federal awards, the accompanying schedule of expenditures of federal awards was prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Such information 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. The information has been subjected to the auditing procedures applied in the audit of the 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.

Accuity LLP

Honolulu, Hawaii
March 12, 2021

State of Hawaii
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2020

Federal Grantor / Pass-through Grantor and Program Title (Pass-through Identifying Number)	Federal CFDA Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. DEPARTMENT OF AGRICULTURE			
U.S. Department of Agriculture Direct Programs			
Plant and Animal Disease, Pest Control and Animal Care	10.025	\$ 362,109	\$ -
Wildlife Services – Plant and Animal Disease, Pest Control, and Animal Care	10.028	3,885	-
Conservation Reserve Program	10.069	20,781	-
Inspection Grading and Standardization	10.162	11,565	-
Market Protection and Promotion	10.163	10,000	-
Specialty Crop Block Grant Program – Farm Bill	10.170	537,799	-
Organic Certification Cost Share Programs	10.171	3,794	-
Trade Mitigation Program Eligible Recipient Agency Operational Fund	10.178	2,460,625	2,414,223
Senior Farmers Market Nutrition Program	10.576	406,189	378,546
Cooperative Forestry Assistance	10.664	736,540	-
Wood Utilization Assistance	10.674	104,102	-
Urban and Community Forestry Program	10.675	210,117	-
Forest Legacy Program	10.676	54,683	-
Forest Stewardship Program	10.678	128,627	-
Forest Health Protection	10.680	560,731	-
Food Distribution Cluster			
Commodity Supplemental Food Program	10.565	1,242,626	1,202,252
Emergency Food Assistance Program (Administrative Costs)	10.568	307,104	250,717
COVID-19 – Emergency Food Assistance Program (Administrative Costs)	COVID-19 – 10.568	3,302	-
Total Emergency Food Assistance Program (Administrative Costs)		310,406	250,717
Emergency Food Assistance Program (Food Commodities)	10.569	1,395,225	-
Total Food Distribution Cluster		2,948,257	1,452,969
Total U.S. Department of Agriculture Direct Programs		8,559,804	4,245,738
Pass-through from the State Department of Education			
Child Nutrition Cluster			
School Breakfast Program (1420-C)	10.553	56,496	-
National School Lunch Program (1420-C)	10.555	88,349	-
Total Child Nutrition Cluster		144,845	-
Pass-through from the State Department of Human Services			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP Cluster) (DHS-18-SNAP-5074)	10.561	174,038	-
Pass-through from U.S. Endowment for Forestry and Community			
Soil and Water Conservation (E18-38)	10.902	44,077	-
Total U.S. Department of Agriculture Pass-through Programs		362,960	-
Total U.S. Department of Agriculture		8,922,764	4,245,738
U.S. DEPARTMENT OF COMMERCE			
U.S. Department of Commerce Direct Programs			
National Oceanic and Atmosphere Administration –			
Management Support for Hawaiian Islands Humpback Whale, Joint Enforcement Agreement	11.U01	86,424	-
Interjurisdictional Fisheries Act of 1986	11.407	183,364	-
Fishery Products Inspection and Certification	11.413	8,967	-
Coastal Zone Management Administration Awards	11.419	2,607,573	1,708,901
Marine Sanctuary Program	11.429	232,366	-
Pacific Fisheries Data Program	11.437	372,434	-
Meteorologic and Hydrologic Modernization Development	11.467	284,817	213,749
Unallied Science Program	11.472	613,417	-
Coral Reef Conservation Program	11.482	728,724	-
State and Local Implementation Grant Program	11.549	207,497	-
Manufacturing Extension Partnership	11.611	887,320	-

(continued)

See accompanying notes to the schedule of expenditures of federal awards.

State of Hawaii
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2020

Federal Grantor / Pass-through Grantor and Program Title (Pass-through Identifying Number)	Federal CFDA Number	Federal Expenditures	Amount Provided to Subrecipients
Economic Development Cluster			
Investments for Public Works and Economic Development Facilities	11.300	300,000	-
Economic Adjustment Assistance	11.307	14,210	14,210
Total Economic Development Cluster		314,210	14,210
Total U.S. Department of Commerce		6,527,113	1,936,860
U.S. DEPARTMENT OF DEFENSE			
U.S. Department of Defense Direct Programs			
Collaborative Research and Development	12.114	5,331,686	-
National Guard Military Operations and Maintenance Projects	12.401	19,539,708	-
National Guard ChalleNGe Program	12.404	4,985,767	-
Economic Adjustment Assistance for State Governments	12.617	182,042	-
Total U.S. Department of Defense		30,039,203	-
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
U.S. Department of Housing and Urban Development Direct Program			
Fair Housing Assistance Program – State and Local	14.401	148,158	-
Total U.S. Department of Housing and Urban Development		148,158	-
U.S. DEPARTMENT OF THE INTERIOR			
U.S. Department of the Interior Direct Programs			
Fish and Wildlife Management Assistance	15.608	83,261	-
Coastal Wetlands Planning, Protection and Restoration	15.614	1,509,091	598,652
Cooperative Endangered Species Conservation Fund	15.615	5,476,973	-
Coastal Program	15.630	93,154	-
State Wildlife Grants	15.634	1,335,479	-
National Wildlife Refuge System Enhancements	15.654	702	-
Endangered Species Conservation – Recovery Implementation Funds	15.657	288,994	-
Economic, Social and Political Development of the Territories	15.875	335,189	-
Outdoor Recreation – Acquisition, Development and Planning	15.916	301,518	301,518
Natural Resource Stewardship	15.944	25,949	-
Fish and Wildlife Cluster			
Sport Fish Restoration	15.605	2,400,265	-
Wildlife Restoration and Basic Hunter Education	15.611	4,280,953	-
Total Fish and Wildlife Cluster		6,681,218	-
Total U.S. Department of the Interior		16,131,528	900,170

(continued)

See accompanying notes to the schedule of expenditures of federal awards.

State of Hawaii
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2020

Federal Grantor / Pass-through Grantor and Program Title (Pass-through Identifying Number)	Federal CFDA Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. DEPARTMENT OF JUSTICE			
U.S. Department of Justice Direct Programs			
Domestic Cannabis Eradication Suppression Program	16.U01	40,464	-
Services for Trafficking Victims	16.320	55,031	47,207
Crime Victim Compensation	16.576	108,550	-
Stop School Violence	16.839	100,496	-
Total U.S. Department of Justice Direct Programs		304,541	47,207
Pass-through from the State Department of the Attorney General			
Crime Victim Assistance (16-VA-23, 17-DJ-05 and 18-V2-05)	16.575	223,615	-
Violence Against Women Formula Grants (15-WF-10)	16.588	6,621	-
Residential Substance Abuse Treatment for State Prisoners (16-RT-01, 17-RT-01, 18-J2-01, 18-DJ-05, 18-XT-01)	16.593	137,693	-
Paul Coverdell Forensic Sciences Improvement Grant Program (18-CD-05)	16.742	21,311	-
Pass-through from the Council of State Governments			
Edward Byrne Memorial Competitive Grant Program (20-RR-BX-K071)	16.751	2,711	-
Total U.S. Department of Justice Pass-through Programs		391,951	-
Total U.S. Department of Justice		696,492	47,207
U.S. DEPARTMENT OF LABOR			
U.S. Department of Labor Direct Programs			
Labor Force Statistics	17.002	632,541	-
Compensation and Working Conditions	17.005	85,858	-
Unemployment Insurance	17.225	1,942,394,091	-
COVID-19 – Unemployment Insurance	COVID-19 – 17.225	1,405,658	-
Total Unemployment Insurance		1,943,799,749	-
Senior Community Service Employment Program	17.235	1,066,145	1,050,156
Trade Adjustment Assistance	17.245	346,213	-
H-1B Job Training Grants	17.268	382,241	-
Work Opportunity Tax Credit Program	17.271	111,511	-
Temporary Labor Certification for Foreign Workers	17.273	47,227	-
WIOA National Dislocated Workers Grants / WIA National Emergency Grants	17.277	1,701,524	-
WIA / WIOA Dislocated Worker National Reserve Technical Assistance and Training	17.281	218,015	-
Apprenticeship USA Grants	17.285	633,009	-
Occupational Safety and Health – State Program	17.503	1,458,578	-
Consultation Agreements	17.504	420,211	-
Employment Service Cluster			
Employment Service / Wagner-Peyser Funded Activities	17.207	3,068,563	-
Disabled Veterans’ Outreach Program	17.801	318,847	-
Local Veterans’ Employment Representative Program	17.804	242,828	-
Total Employment Service Cluster		3,630,238	-
WIOA Cluster			
WIOA Adult Program	17.258	1,566,312	917,744
WIOA Youth Activities	17.259	2,073,348	1,689,381
WIOA Dislocated Worker Formula Grants	17.278	1,515,453	704,084
Total WIOA Cluster		5,155,113	3,311,209
Total U.S. Department of Labor		1,959,688,173	4,361,365

(continued)

See accompanying notes to the schedule of expenditures of federal awards.

State of Hawaii
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2020

Federal Grantor / Pass-through Grantor and Program Title (Pass-through Identifying Number)	Federal CFDA Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. DEPARTMENT OF TRANSPORTATION			
U.S. Department of Transportation Direct Program Highway Planning and Construction Cluster Highway Planning and Construction	20.205	573,899	-
Pass-through from the State Department of Transportation Federal Transit Administration Federal Transit – Capital Investment Grants (Federal Transit Cluster) (HI-03-0038-00)	20.500	159,221	-
Total U.S. Department of Transportation		<u>733,120</u>	<u>-</u>
U.S. DEPARTMENT OF THE TREASURY			
U.S. Department of Treasury Direct Program Equitable Sharing	21.016	29,023	-
COVID-19 – Coronavirus Relief Fund	COVID-19 – 21.019	87,661,990	87,661,990
Total U.S. Department of the Treasury		<u>87,691,013</u>	<u>87,661,990</u>
U.S. EQUAL EMPLOYMENT OPPORTUNITY COMMISSION			
U.S. Equal Employment Opportunity Commission Direct Program Employment Discrimination – State and Local Fair Employment Practices Agency Contracts	30.002	188,437	-
Total U.S. Equal Employment Opportunity Commission		<u>188,437</u>	<u>-</u>
U.S. GENERAL SERVICES ADMINISTRATION			
U.S. General Services Administration Direct Program Donation of Federal Surplus Personal Property	39.003	1,463,428	-
Total U.S. General Services Administration		<u>1,463,428</u>	<u>-</u>
U.S. NATIONAL ENDOWMENT FOR THE ARTS			
U.S. National Endowment for the Arts Direct Program Promotion of the Arts – Partnership Agreements	45.025	587,554	246,139
Total U.S. National Endowment for the Arts		<u>587,554</u>	<u>246,139</u>
U.S. SMALL BUSINESS ADMINISTRATION			
U.S. Small Business Administration Direct Program Federal and State Technology Partnership Program	59.058	134,244	-
State Trade Expansion	59.061	482,903	-
Total U.S. Small Business Administration		<u>617,147</u>	<u>-</u>
U.S. DEPARTMENT OF VETERANS AFFAIRS			
U.S. Department of Veterans Affairs Direct Program Veterans Cemetery Grants Program	64.203	1,208,277	-
Total U.S. Department of Veterans Affairs		<u>1,208,277</u>	<u>-</u>

(continued)

See accompanying notes to the schedule of expenditures of federal awards.

State of Hawaii
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2020

Federal Grantor / Pass-through Grantor and Program Title (Pass-through Identifying Number)	Federal CFDA Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. ENVIRONMENTAL PROTECTION AGENCY			
U.S. Environmental Protection Agency Direct Programs			
Performance Partnership Grants	66.605	466,866	-
Total U.S. Environmental Protection Agency Direct Programs		466,866	-
Pass-through from U.S. Endowment for Forestry and Community			
Healthy Watersheds Consortium Grant Program (E18-38)	66.441	31,217	-
Regional Wetland Program Development Grants (9993801-0)	66.461	12,993	-
Pass-through from the State Department of Health			
Nonpoint Source Implementation Grant (96978716)	66.460	220,412	-
Capitalization Grant for Drinking Water State Revolving Funds (Drinking Water State Revolving Fund Cluster) (99986519)	66.468	179,335	-
Total U.S. Environmental Protection Agency Pass-through Programs		443,957	-
Total U.S. Environmental Protection Agency		910,823	-
U.S. DEPARTMENT OF ENERGY			
U.S. Department of Energy Direct Programs			
State Energy Program	81.041	39,833	-
Weatherization Assistance for Low-Income Persons	81.042	219,637	201,691
Renewable Energy Research and Development	81.087	540,148	-
State Energy Program Special Projects	81.119	85,731	69,841
Total U.S. Department of Energy		885,349	271,532
U.S. DEPARTMENT OF EDUCATION			
Pass-through from the State Department of Human Services			
Rehabilitation Services Vocational Rehabilitation Grants to States (DHS 18VR-4262)	84.126	246,657	-
Pass-through from the University of Hawaii			
Career and Technical Education – Basic Grants to States (V048A40011)	84.048A	22,500	-
Total U.S. Department of Education Pass-through Programs		269,157	-
Total U.S. Department of Education		269,157	-
U.S. ELECTION ASSISTANCE COMMISSION			
U.S. Election Assistance Commission Direct Program			
Help America Vote Act Requirements Payments	90.401	437,848	-
HAVA Election Security	90.404	195,229	-
Total U.S. Election Assistance Commission		633,077	-

(continued)

See accompanying notes to the schedule of expenditures of federal awards.

State of Hawaii
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2020

Federal Grantor / Pass-through Grantor and Program Title (Pass-through Identifying Number)	Federal CFDA Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
U.S. Department of Health and Human Services Direct Programs			
Food and Drug Administration Research	93.103	89,428	-
Refugee and Entrant Assistance – State Administered Programs	93.566	99,109	87,981
Community Services Block Grant	93.569	3,310,860	3,125,033
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations & Evaluations	93.779	205,294	-
The Health Insurance Enforcement and Consumer Protections Grant Program	93.881	78,253	-
Total U.S. Department of Health and Human Services Direct Programs		3,782,944	3,213,014
Pass-through from the State Department of Human Services			
Temporary Assistance for Needy Families (DHS-16-ETPO-3064, DHS-17-ETPO-4031 and DHS-19-ETPO-3064)	93.558	852,093	197,270
Low-Income Home Energy Assistance (G-19B1HILIEA and G-2001HILIEA)	93.568	285,882	263,472
Total U.S. Department of Health and Human Services Pass-through Programs		1,137,975	460,742
Total U.S. Department of Health and Human Services		4,920,919	3,673,756
U.S. DEPARTMENT OF HOMELAND SECURITY			
U.S. Department of Homeland Security Direct Programs			
Boating Safety Financial Assistance	97.012	534,298	-
Community Assistance Program State Support Services Element	97.023	49,348	-
Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036	7,520,500	6,464,046
National Dam Safety Program	97.041	20,464	-
Emergency Management Performance Grants	97.042	2,919,933	579,512
Cooperating Technical Partners	97.045	152,127	-
Pre-Disaster Mitigation	97.047	125,019	82,500
Port Security Grant Program	97.056	189,669	101,594
Homeland Security Grant Program	97.067	5,060,834	2,881,979
Earthquake Consortium	97.082	3,672	-
Preparing for Emerging Threats and Hazards	97.133	196,799	-
Total U.S. Department of Homeland Security		16,772,663	10,109,631
Total Expenditures of Federal Awards		\$ 2,139,034,395	\$ 113,454,388

(concluded)

See accompanying notes to the schedule of expenditures of federal awards.

State of Hawaii
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2020

1. Reporting Entity

The accompanying schedule of expenditures of federal awards (SEFA) includes the federal grant activity of the following State of Hawaii departments and agencies:

- Department of Accounting and General Services
- Department of Agriculture
- Department of Budget and Finance
- Department of Business, Economic Development and Tourism
- Department of Commerce and Consumer Affairs
- Department of Defense
- Department of Human Resources Development
- Department of Labor and Industrial Relations
- Department of Land and Natural Resources
- Department of Public Safety
- Department of Taxation
- Governor's Office

Certain other departments and agencies within the State of Hawaii obtained separate audits performed in accordance with Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and accordingly, separate Uniform Guidance submissions are made. (See Note 2.)

2. Other State of Hawaii Departments and Agencies Not Included in the Accompanying Schedule of Expenditures of Federal Awards

The following is a summary of State of Hawaii departments and agencies that obtain separate Uniform Guidance audits or do not receive federal grants and, therefore, do not obtain an audit under the Uniform Guidance. Awards listed in these audit reports are not included in the accompanying SEFA:

- Department of the Attorney General
- Department of Education
- Department of Hawaiian Home Lands
- Department of Health
- Department of Human Services
- Department of Transportation
- Drinking Water Treatment Revolving Loan Fund
- Hawaii Community Development Authority
- Hawaii Employer-Union Health Benefits Trust Fund
- Hawaii Health Systems Corporation
- Hawaii Housing Finance and Development Corporation
- Hawaii Hurricane Relief Fund
- Hawaii Public Housing Authority

State of Hawaii
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2020

- Hawaii Tourism Authority
- Judiciary
- University of Hawaii
- Water Pollution Control Revolving Fund

3. Basis of Accounting

The basic financial statements of the State of Hawaii have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

4. Basis of Presentation

The information in this schedule is presented in accordance with the requirements of the Uniform Guidance. Expenditures reported in the schedule are reported on the cash basis of accounting.

5. Nonmonetary Assistance

The SEFA contains values of a nonmonetary assistance program. As provided by program regulations, property received under CFDA No. 39.003, *Donation of Federal Surplus Personal Property Program*, and food commodities received under CFDA No. 10.553, *School Breakfast Program*, CFDA No. 10.555, *National School Lunch Program*, and CFDA No. 10.569, *Emergency Food Assistance Program*, are presented at the estimated fair value at the time of donation.

6. Unemployment Insurance

State unemployment tax revenues and government contributions are used to pay benefits under federally approved State unemployment law. Of the \$1,943,799,749 reported as expenditures for CFDA No. 17.225, *Unemployment Insurance*, \$1,925,285,972 represented expenditures of the State.

7. Relationship to Federal and State Financial Reports

The regulations and guidelines governing the preparation of federal and state financial reports vary by state and federal agency and among programs administered by the same agency. Accordingly, the amounts reported in the federal and State financial reports do not necessarily agree with the amounts reported in the accompanying SEFA which is prepared as explained in Notes 3 and 4 above.

8. Indirect Costs

The State does not use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

State of Hawaii
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2020

9. Research and Development Cluster Expenditures

The SEFA includes the following Research and Development amounts:

Federal Grantor and Program Title	Federal CFDA Number	Federal Expenditures
U.S. Department of Agriculture Direct Programs		
Urban and Community Forestry Program	10.675	\$ 210,117
Forest Stewardship Program	10.678	128,627
Total U.S. Department of Agriculture		338,744
U.S. Department of Commerce Direct Programs		
Interjurisdictional Fisheries Act of 1986	11.407	183,364
Marine Sanctuary Program	11.429	232,366
Pacific Fisheries Data Program	11.437	372,434
Coral Reef Conservation Program	11.482	728,724
Total U.S. Department of Commerce		1,516,888
U.S. Department of Defense Direct Programs		
Collaborative Research and Development	12.114	5,331,686
Total U.S. Department of Defense		5,331,686
U.S. Department of the Interior Direct Programs		
Fish and Wildlife Management Assistance	15.608	83,261
Cooperative Endangered Species Conservation Fund	15.615	5,476,973
State Wildlife Grants	15.634	1,335,479
National Wildlife Refuge System Enhancements	15.654	702
Economic, Social and Political Development of the Territories	15.875	335,189
Natural Resource Stewardship	15.944	25,949
Total U.S. Department of the Interior		7,257,553
U.S. Environmental Protection Agency		
Pass-through from U.S. Endowment for Forestry and Community – Regional Wetland Program Development Grants	66.461	12,993
Total U.S. Environmental Protection Agency		12,993
Total Research and Development Cluster		\$ 14,457,864

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2020

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued	Unmodified
Internal control over financial reporting	
• Material weaknesses identified?	<u> X </u> yes <u> </u> no
• Significant deficiencies identified?	<u> X </u> yes <u> </u> none reported
Noncompliance material to financial statements noted?	<u> </u> yes <u> X </u> no

Federal Awards

Internal control over major programs	
• Material weaknesses identified?	<u> X </u> yes <u> </u> no
• Significant deficiencies identified?	<u> X </u> yes <u> </u> none reported

Type of auditors’ report issued on compliance for major programs Qualified

An unmodified opinion was issued on the State of Hawaii’s compliance with its major federal programs for the year ended June 30, 2020, except for the requirements regarding special tests and provisions for CFDA No. 17.225, *Unemployment Insurance* , and COVID-19 – 17.225, *COVID-19 – Unemployment Insurance* , for which the opinion on compliance was qualified.

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?	<u> X </u> yes <u> </u> no
Dollar threshold used to distinguish between type A and type B program	\$6,417,103
Auditee qualified as low-risk auditee?	<u> </u> yes <u> X </u> no

State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2020

Identification of Major Programs

Federal CFDA Number	Name of Federal Program or Cluster
12.404 COVID-19 – 21.019	National Guard ChalleNGe Program COVID-19 – Coronavirus Relief Fund
17.225 COVID-19 – 17.225	Unemployment Insurance Unemployment Insurance COVID-19 – Unemployment Insurance

FINANCIAL STATEMENT FINDINGS

State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2020

Section II – Financial Statement Findings

Finding No. 2020-001: Internal Control over Financial Reporting (Significant Deficiency)

State Department of Accounting and General Services

Condition

The State's internal control over financial reporting could be improved. During our audit of the fiscal year 2020 financial statements, we identified multiple deficiencies that, when considered in the aggregate, indicated a significant deficiency in the State's internal control over financial reporting.

The process used by the State Department of Accounting and General Services (DAGS) Accounting Division to consolidate required information from State departments and agencies to prepare the State's Comprehensive Annual Financial Report (CAFR) (e.g., preparing Governmental Funds financial statements on a modified accrual basis and the Government-Wide financial statements on an accrual basis) is inefficient, time consuming, and causes delays in statewide financial reporting.

Information necessary to prepare such accounting entries must be obtained from other State departments and agencies. For the year ended June 30, 2020, DAGS requested formal reporting information packages to obtain the financial information from State departments but did not receive timely responses from some of the departments.

A similar finding was reported in the prior year as Finding No. 2019-001.

Criteria

Management is responsible for establishing and maintaining internal control over financial reporting, the objectives of which are to provide management with reasonable, but not absolute, assurance that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with GAAP. The DAGS Accounting Division is responsible for preparing the CAFR in accordance with GAAP.

Effect

Due to the untimely submission of information to DAGS, inadequate review of journal entries by the departments, and issues in accounting for capital assets at the department level, various audit adjustments and reclassifications were necessary to properly report the fiscal year 2020 financial statements.

Other misstatements identified were not corrected as they were deemed to be immaterial to the financial statements.

Cause and View of Responsible Officials

The deficiencies are due to inefficiencies in the financial statement preparation process, the lack of timely information from various departments, and the lack of adequate review at the departments.

State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2020

Recommendation

DAGS should continue to develop well-defined, systematic, efficient and orderly processes for financial reporting that include a comprehensive set of policies and procedures necessary to establish internal control over financial reporting. The process and its key attributes (e.g., overall timing, methodology, format and frequency of analyses) should be formally documented, approved, communicated to other departments and agencies, and monitored on a regular basis.

Furthermore, individuals who perform reviews of journal entries at the departments should be adequately trained to review for proper source codes, appropriations, and object codes being used. Departments should perform a thorough review of post-closing journal entries to ensure all items from various schedules are reflected in the post-closing journal entries. Departments should also ensure construction projects are properly classified as in-progress, transferred to the proper depreciable asset class when placed in service, or written off as expenses if abandoned or otherwise not capitalized. Departments should ensure capital assets schedules provided to DAGS are complete and accurate.

Adherence to these policies and procedures will facilitate the processing of complete, accurate and timely financial information.

State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2020

Finding No. 2020-002: Accounting for Component Units and Proprietary Funds (Significant Deficiency)

State Department of Accounting and General Services

Condition

During fiscal year 2008, DAGS implemented a financial statement policy on reporting material component units (CU) and proprietary funds (PF), which indicated that only material CUs and PFs would be reported as discretely presented CUs and major PFs in the CAFR. Materiality was determined based on certain quantitative criteria determined by DAGS. During the year ended June 30, 2013, DAGS revised its financial reporting policy to comply with GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an Amendment of GASB Statements No. 14 and 34*.

Consequently, although DAGS determined that the Stadium Authority, Hawaii Strategic Development Corporation, Hawaii Technology Development Corporation, Natural Energy Laboratory of Hawaii, and Agribusiness Development Corporation met the definition of discretely presented CUs as defined in GASB Statement No. 61, these CUs did not meet the materiality thresholds under the State's policy, and thus were not disclosed as discretely presented in the June 30, 2020 CAFR. Instead, these entities were reported as blended component units within the State's governmental activities and the governmental funds to which they were administratively attached.

DAGS also determined that the Department of Accounting and General Services – State Parking Revolving Fund, the Department of Accounting and General Services – State Motor Pool Fund, the Department of Public Safety – Correctional Industries Fund, and the Department of Labor and Industrial Relations – Disability Compensation Fund met the definition of PFs as defined in GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. However, they did not meet the materiality threshold under the State's financial reporting policy. Therefore, these PFs were not reported as PFs in the June 30, 2020 CAFR but were reported as part of the State's governmental activities and within the governmental funds to which they were administratively attached.

A similar finding was reported in the prior year as Finding No. 2019-002.

Criteria

CUs are legally separate organizations that the State must include as part of its financial reporting entity for fair presentation in conformity with GAAP. CUs have unique accounting and reporting requirements as established by GASB Statement No. 61. The GASB accounting standards provide defined criteria for determining whether a particular legally separate entity is a discretely presented CU of the State.

Similarly, Enterprise Funds that meet the definition of proprietary funds established by GASB Statement No. 34 should be reported within the PF financial statements and the business-type activities in the government-wide financial statements.

Effect

In accordance with the State's policy, the CUs and PFs noted above were incorrectly included in the governmental activities and respective governmental funds in the State's CAFR, rather than as discretely presented CUs or PFs, despite meeting the discretely presented CU and PF criteria under GAAP.

State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2020

A summary of account balances and funds that were incorrectly classified by State management is presented below (amounts expressed in millions):

	<u>Revenues</u>	<u>Expenditures</u>	<u>Assets</u>
Discretely presented component units			
Stadium Authority	\$ 6.8	\$ 13.6	\$ 100.2
Hawaii Strategic Development Corporation	0.2	0.1	0.6
Hawaii Technology Development Corporation	10.2	14.4	4.9
Natural Energy Laboratory of Hawaii	5.6	5.8	7.7
Agribusiness Development Corporation	2.5	10.7	77.5
Nonmajor proprietary funds			
Department of Accounting and General Services – State Parking Revolving Fund	\$ 3.7	\$ 4.8	\$ 13.6
Department of Accounting and General Services – State Motor Pool Fund	2.3	2.1	2.6
Department of Public Safety – Correctional Industries Fund	5.8	3.8	2.0
Department of Labor and Industrial Relations – Disability Compensation Fund	14.2	15.6	13.0

Cause and View of Responsible Officials

In determining which CUs and PFs should be presented as discretely presented CUs and nonmajor PFs in the CAFR, management did not follow the guidelines described in GASB Statements No. 34 and 61, respectively. DAGS also determined that some of the potential CUs and PFs are unable to close their accounting records and to complete audits in a timely manner, such that audited financial statements would not be available for the preparation of the CAFR. Therefore, application of GASB Statements No. 34 and 61 would require time and resources to complete and would likely delay the completion of the CAFR.

Recommendation

DAGS should consider changing the CAFR accounting and reporting policy to conform to the provisions of GASB Statements No. 34 and 61.

State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2020

Finding No. 2020-003: IT General Control Deficiencies (Material Weakness)

Condition

Information technology (IT) is a strategic element of the State’s operations. Because of the high volume of transactions at the State, the establishment of internal controls over processes incorporating IT is critical to its operations. As part of our financial statement audit of the State for the year ended June 30, 2020, we performed an IT general controls review of selected State departments’ systems, including the following systems operated by the Department of Taxation (DoTAX), Department of Labor and Industrial Relations (DLIR), and DAGS:

DoTAX	DLIR	DAGS
eFile (as it relates to data received from Hawaii Information Consortium)	UI BPS	Statewide Inventory System
GenTax	UI Tax	FAMIS
	QWRS	HawaiiPay
	UI Employer Website	CWWS
		Recon

Our review resulted in IT control deficiencies in the areas of logical security and change management as follows:

Logical security

DoTAX

- A review of functions (permissions) assigned to GenTax users was not performed as part of the 2020 annual user access review.

DLIR

- Terminated users are not consistently removed in a timely manner.
- No user access review performed on the UI Employer Website.

DAGS

- Unable to verify password parameters for an RACF account.
- A review of mainframe user access rights was not performed by the Office of Enterprise Technology Services (ETS) during fiscal year 2020.

State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2020

Change management

DLIR

- Developers have access to the production environment.
- There is no evidence to support that developers are properly segregated from the production environment for the UI Employer Website with no monitoring control in place to detect unauthorized changes.

DAGS

- ETS 101 S1 Request Forms for the FAMIS/CWWS/Recon system were not properly tracked to completion and evidence to support testing and user acceptance for implemented changes were not retained. Additionally, promotion to production request forms were approved without verification that testing was completed and accepted as required in the current change management procedures.
- A mainframe emergency change was not properly documented to evidence that access to implement changes into the production environment was removed in a timely matter for personnel responsible for development activities.

Collectively, the number and related nature of the IT control deficiencies resulted in an overall material weakness.

A similar finding was reported as a material weakness in the prior year as Finding No. 2019-003.

Criteria

When IT is used to initiate, record, process and report on transactions included in the financial statements, the systems and related processes should include internal controls to prevent or detect potential misstatements.

Effect

Internal controls in the areas of logical security and change management address the following risks:

Logical security

Unauthorized access to financial systems could result in the loss of data, unauthorized or nonexistent transactions being made, or transactions being inaccurately recorded.

Change management

Unauthorized or untested changes promoted to the production environment could cause the financial systems to either process data differently than intended or unexpectedly compromise the integrity of the data maintained.

State of Hawaii

Schedule of Findings and Questioned Costs

Year Ended June 30, 2020

Cause and View of Responsible Officials

The State's IT policies and procedures do not include internal control procedures addressing the risks discussed above or such controls are not consistently followed.

Recommendation

We recommend that DoTAX, DLIR and DAGS perform the following:

Logical security

DoTAX

- Ensure access permissions are reviewed as part of the annual user access review.

DLIR

- Implement periodic terminated user reviews.
- Ensure user access rights are commensurate with job responsibilities and remove users who do not require access to the applicable systems.

DAGS

- Ensure password parameter requirements are properly set.
- Ensure user access rights are commensurate with job responsibilities and remove users who do not require access to the applicable systems.

Change management

DLIR

- Remove developers' access to the UI BPS, UI Tax, and QWRS production environment.
- Ensure that developer access to the UI Employer Website is properly restricted from the production environment.

DAGS

- Ensure ETS policies and procedures properly track FAMIS/CWWS/Recon system changes to completion and document evidence to support testing and user acceptance for implemented changes are followed.
- Ensure ETS policies and procedures are followed in documenting mainframe emergency changes.
- Ensure an evaluation of critical mainframe patches is performed.
- Ensure that developers do not have access to promote changes to the production environment for the Statewide Inventory System.

**FEDERAL AWARD FINDINGS
AND QUESTIONED COSTS**

Section III – Federal Award Findings and Questioned Costs

Finding No. 2020-004: SEFA (Significant Deficiency)

Condition

The State's current accounting process for certain departments does not track federal funds individually within the general ledger system. Instead, one appropriation account is often created and assigned to the respective department and many federal grants expended by the department are grouped within the one appropriation account. For a department that receives and expends multiple federal awards, it must prepare and maintain separate accounting records outside of FAMIS, the State's accounting system, to be able to segregate the cash balances, receipts and expenditures by each grant that it receives. These separate accounting records are maintained by multiple accountants in the larger departments and are not combined and reconciled into FAMIS periodically.

A similar finding was reported in the prior year as Finding No. 2019-004.

Criteria

The Office of Management and Budget (OMB) issued the Uniform Guidance, which is codified in 2 CFR Part 200 and requires non-federal entities that expend \$750,000 or more in federal awards in a year to have a Single Audit conducted on its federal award programs and SEFA.

The Uniform Guidance established responsibilities for auditees, including:

- Identify all federal awards received and expended and the federal programs under which they were received.
- Maintain internal control over federal programs that provide reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations and provisions of contracts or grant agreements that could have a material effect on each of its federal programs.
- Prepare appropriate financial statements, including the SEFA.

Effect

Due to the deficiencies in internal control over SEFA preparation noted, there were misstatements in the SEFA for the year ended June 30, 2020 that were not detected by management's internal controls, but were subsequently identified and corrected as part of our auditing procedures.

- For CFDA No. 16.U01, *Domestic Cannabis Eradication Suppression Program*, amounts expended were initially understated by \$40,000 due to misclassification.
- For CFDA No. 10.568, *Emergency Food Assistance Program (Administrative Costs)*, and CFDA No. 17.225, *Unemployment Insurance*, expenditures related to COVID-19 awards were initially not separately identified.
- For CFDA No. 21.019, *Coronavirus Relief Fund*, the program was not initially identified as a COVID-19 program.

State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2020

Cause and View of Responsible Officials

A thorough review of each department's reconciliation of its separate accounting records that track federal expenditures to FAMIS was not performed by someone knowledgeable to ensure that the expenditure amounts were accurately reported. Although formal reporting instructions were created by DAGS to establish internal control over preparing the SEFA and sent to other departments for the year ended June 30, 2020, certain departments failed to follow the instructions and process established by DAGS. DAGS and departmental personnel were also unaware of the OMB guidance to separately report expenditures of COVID-19 assistance.

Recommendation

We recommend DAGS enforce its established process for preparing the SEFA. We also recommend DAGS provide training to the other departments to ensure proper information is provided by the departments for DAGS to accurately prepare the State's SEFA, including reporting expenditures funded by pass-through entities. We also recommend DAGS and other departmental personnel review and keep abreast of reporting guidance issued by the OMB.

State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2020

		Questioned Cost
Finding No. 2020-005:	Special Tests and Provisions (Material Weakness)	\$ _____ –
State Agency:	Department of Labor and Industrial Relations (DLIR)	
Federal Agency:	Department of Labor	
CFDA Number and Title:	17.225 – <i>Unemployment Insurance</i> COVID-19 – 17.225 – COVID-19 – <i>Unemployment Insurance</i>	
Award Number and Award Year:	UI-34054-20-55-A-15 2020 UI-34160-20-55-A-15 2020 UI-34492-20-60-A-15 2020 UI-34711-20-55-A-15 2020 UIPL No. 13-20 2020	
Repeat Finding?	No	

Condition

During our audit, we examined the Benefit Accuracy Measurement (BAM) summary report and identified minimum cases and timeliness requirements were not met regarding paid and denied claims.

Criteria

Pursuant to 20 CFR Part 602, the BAM system requires the State department to complete a minimum number of unemployment cases timely in order to maintain a current database. The required number of cases and the timeliness percentages for completing paid and denied claims are as follows:

Paid Claims

- Minimum cases: 480 paid cases
- Timeliness percentages: Complete 70% within 60 days, 95% within 90 days, and 98% within 120 days

Denied Claims

- Minimum cases: 450 denied cases (150 cases for each category: monetary, separation and non-separation)
- Timeliness percentages: Complete 60% within 60 days, 85% within 90 days, and 98% within 120 days

State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2020

Effect

Failure to meet timeliness requirements prevents the granting agency from maintaining a current database.

Cause and View of Responsible Officials

Due to the COVID-19 pandemic, the department was significantly impacted with an increase in unemployment claims. Employees were also hindered from working for a substantial amount of time due to government-mandated shutdowns and other restrictions.

Recommendation

We recommend that the State department develop new policies and procedures to handle the increase in unemployment claims and follow existing policies and procedures established to comply with claim handling requirements.

State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2020

		Questioned Cost
Finding No. 2020-006:	Eligibility (Significant Deficiency)	“See Effect”
State Agency:	DLIR	
Federal Agency:	Department of Labor	
CFDA Number and Title:	COVID-19 – 17.225 – COVID-19 – <i>Unemployment Insurance</i>	
Award Number and Award Year:	UI-34711-20-55-A-15 2020	
Repeat Finding?	No	

Condition

During our audit, we were informed by DLIR management that there were inappropriate benefit payments made to ineligible claimants under the Pandemic Unemployment Assistance (PUA) program.

Criteria

The Coronavirus Aid, Relief, and Economic Security (CARES) Act, Section 2102 contains eligibility requirements for the PUA program.

Effect

Failure to comply with the eligibility requirements results in noncompliance with the terms of the award and may result in recapture of funds by the awarding agency. Pursuant to 2 CFR 200.516(a)(6), the questioned cost is not required to be disclosed as releasing such information could compromise current investigative proceedings.

Cause and View of Responsible Officials

Due to the COVID-19 pandemic, the department was significantly impacted with an increase in unemployment claims, resulting in management initially prioritizing the processing and payment of claims over ensuring claimants were fully eligible to receive PUA benefits. However, we noted existing detective controls subsequently identified the ineligible payments. Management subsequently implemented additional preventive controls to ensure eligibility of claims and is pursuing recovery of ineligible payments. Employees were also hindered from working for a substantial amount of time due to government-mandated shutdowns and other restrictions.

Recommendation

We recommend that the State department develop new policies and procedures to handle the increase in unemployment claims and follow existing policies and procedures established to comply with eligibility requirements.

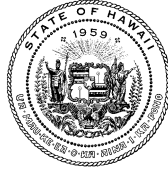
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2020

Recommendation

We recommend that program management ensure that program personnel are familiar with all grant requirements, including compliance with 2 CFR Part 200 which requires the reporting of all necessary federal award information to subrecipients and risk assessments of subrecipients. Management should develop procedures that ensure the State department's responsibilities as a pass-through entity are fulfilled, including a formal analysis of each subrecipient's risk of noncompliance with each of the respective subaward requirements. This evaluation of risk may include consideration of such factors as the following:

- The subrecipient's prior experience with the same or similar subawards;
- The results of previous audits including whether or not the subrecipient receives a Single Audit in accordance with 2 CFR Part 200, Subpart F, and the extent to which the same or similar subaward has been audited as a major program;
- Whether the subrecipient has new personnel or new or substantially changed systems; and
- The extent and results of federal awarding agency monitoring.

DAVID Y. IGE
GOVERNOR



CURT T. OTAGURO
COMPTROLLER
AUDREY HIDANO
DEPUTY COMPTROLLER

STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES

P.O. BOX 119, HONOLULU, HAWAII 96810-0119

March 12, 2021

ACC 21.U005

Accuity LLP
999 Bishop Street, Suite 1900
Honolulu, HI 96813

Gentlemen:

Thank you for the opportunity to provide comments on the Schedule of Findings and Questioned Costs issued in connection with the Single Audit of Federal Financial Assistance Programs for the fiscal year ended June 30, 2020. We have also attached our comments on the status of prior audit findings.

We commend Accuity LLP's staff for the cooperative and professional manner in which they conducted themselves during this audit.

If you have any questions, please call Ms. Lenora D. Fisher, Accounting Division at 586-0600.

Sincerely,

CURT T. OTAGURO
Comptroller

Attachments

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

State of Hawaii
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2020

Finding No.	Description	Department	Classification	Status		Current Year Finding No.
				Resolved	Unresolved	
2019-001	Internal Control Over Financial Reporting	DAGS	Significant Deficiency		X	2020-001
2019-002	Accounting for Component Units and Proprietary Funds	DAGS	Significant Deficiency		X	2020-002
2019-003	IT General Control Deficiencies	DLIR; DoTAX	Material Weakness		X	2020-003
2019-004	Schedule of Expenditures of Federal Awards	DAGS	Significant Deficiency		X	2020-004
2019-005	Allowable Costs	DOD	Material Weakness	X		
2019-006	Period of Performance	DOD	Material Weakness	X		
2019-007	Reporting	DOD	Material Weakness	X		
2019-008	Cash Management	DLNR	Significant Deficiency	X		
2019-009	Suspension and Debarment	DLNR	Significant Deficiency		X	
2019-010	Earmarking	DLNR	Material Weakness		X	
2019-011	Special Tests and Provisions	DLNR	Significant Deficiency		X	
2019-012	Subrecipient Monitoring	DLIR	Significant Deficiency	X		
2019-013	Subrecipient Monitoring	DOD	Significant Deficiency	X		
2019-014	Subrecipient Monitoring	DOD	Material Weakness		X	
2018-007	Suspension and Debarment	DLNR	Significant Deficiency	X		
2018-008	Equipment Management	DLNR	Significant Deficiency	X		

(continued)

State of Hawaii
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2020

Finding No.	Description	Department	Classification	Status		Current Year Finding No.
				Resolved	Unresolved	
2014-025	Reporting	DOD	Significant Deficiency	X		
2013-031	Unrecorded and Untimely Recorded Property Acquisitions	DLNR	Significant Deficiency	X		
2012-25	Acquisitions Not Recorded in FAIS	Department of Public Safety (DPS)	Significant Deficiency	X		
09-01	Improve Controls over Inmate Agency Accounts	DPS	Material Weakness		X	

(concluded)

State of Hawaii
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2020

Corrective Actions Taken for Unresolved Findings

Finding No. 2019-001: Internal Control Over Financial Reporting

In fiscal year 2020, DAGS requested formal reporting information packages from State departments but did not receive timely and accurate responses from some departments. As a current year finding (Finding No. 2020-001) is reported, Finding No. 2019-001 will not be carried forward.

Finding No. 2019-002: Accounting for Component Units and Proprietary Funds

No corrective action was taken in fiscal year 2020. As a current year finding (Finding No. 2020-002) is reported, Finding No. 2019-002 will not be carried forward.

Finding No. 2019-003: IT General Control Deficiencies

Corrective actions were taken in fiscal year 2020 to mitigate a number of the previously reported deficiencies; however, corrective action is still ongoing. As a current year finding (Finding No. 2020-003) is reported, Finding No. 2019-003 will not be carried forward.

Finding No. 2019-004: Schedule of Expenditures of Federal Awards

Formal reporting instructions were created by DAGS and sent to other departments and agencies for the year ended June 30, 2020. As a current year finding (Finding No. 2020-004) is reported, Finding No. 2019-004 will not be carried forward.

Finding No. 2019-009: Suspension and Debarment

DLNR continues to improve its internal controls to be in compliance with suspension and debarment requirements.

Finding No. 2019-010: Earmarking

DLNR continues to improve its internal controls to be in compliance with earmarking requirements.

Finding No. 2019-011: Special Tests and Provisions

DLNR has been working with the Federal Agency to clarify the memorandum of understanding/ agreement requirements.

Finding No. 2019-014: Subrecipient Monitoring

DOD worked with the Federal Agency to clarify the subrecipient monitoring requirements. Implementation of the corrective action was completed in September 2020.

Finding No. 09-01: Improve Controls over Inmate Agency Accounts

A new system is being developed to assist the programs in addressing Inmate Accounts issues. Implementation of the new system is anticipated to be completed by fiscal year 2021.

CORRECTIVE ACTION PLAN

STATE OF HAWAII

**CORRECTIVE ACTION PLAN
JUNE 30, 2020**

2020-003 – IT General Control Deficiencies (Material Weakness)

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The Department of Tax (DoTax), Department of Labor and Industrial Relations (DLIR) and the Enterprise Technology Services (ETS) address their respective IT control deficiencies in the areas of logical security, change management and IT operations as follows:

DLIR:

Logical Security

Terminated users are not consistently removed in a timely manner

Corrective Action Plan

Concur. DLIR is developing a process to have Human Resources notify the IT Department of any terminated employees.

Person Responsible Bennett Yap, DLIR IT Chief

Anticipated Date of Completion June 30, 2021

No user access review performed on the UI employer website

Corrective Action Plan

Concur. DLIR-IT will schedule annual user access review.

Person Responsible Wendy Maher, DLIR-UI Specialist Supervisor

Anticipated Date of Completion June 30, 2021

Change Management

Developers have access to the production environment

Corrective Action Plan

Concur. DLIR is working with ETS to remove developers access to the production environment. Developers are able to request access for emergency situations. A special login is provided for a limited time to address the emergency. This emergency process has been in place for 2 years.

Person Responsible Bennett Yap, DLIR IT Chief

Anticipated Date of Completion June 30, 2021

STATE OF HAWAII

**CORRECTIVE ACTION PLAN
JUNE 30, 2020**

No evidence to support that developers are properly segregated from the production environment for the UI Employer Website and no monitoring control in place to detect unauthorized changes

Corrective Action Plan

Concur. DLIR is working with the vendor to understand controls and/or have access to a SOC-1 report.

Person Responsible Bennett Yap, DLIR IT Chief

Anticipated Date of Completion June 30, 2021

DOTAX:

Logical Security

Review of functions (permissions) assigned to GenTax users was not performed

Corrective Action Plan

Concur. GenTax VII does not have sufficient Role Based Access Control (RBAC) implementation of user security. DOTAX is upgrading to Version 12 which has RBAC which will satisfy the audit requirement.

Person Responsible Michael Otsuji, IT Project Manager

Anticipated Date of Completion Fall 2021

DAGS:

Logical Security

Unable to verify password parameters for an RACF account

Corrective Action Plan

Concur. ETS-SSB has identified the user accounts and currently working with the Department's IT coordinators to accept and implement resolution that will verify that password parameters of the user accounts are compliant to the standard.

Person Responsible Mario Othello Rigor, ETS-SSB Section Chief

Anticipated Date of Completion April 30, 2021

STATE OF HAWAII

CORRECTIVE ACTION PLAN JUNE 30, 2020

A review of mainframe user access rights was not performed by the Office of Enterprise Technology Services (ETS) during fiscal year 2020.

Corrective Action Plan

Concur. Previous year's review was done at the end of the fiscal year. Going forward, the review of RACF System and Group Administrators will be done prior to the end of the fiscal year.

Person Responsible Mario Othello Rigor, ETS-SSB Section Chief

Anticipated Date of Completion April 30, 2021

Change Management

ETS 101 S1 Request Forms for the FAMIS/CWWS/Recon system were not properly tracked to completion and evidence to support testing and user acceptance for implemented changes were not retained. Additionally, promotion to production request forms were approved without verification that testing was completed and accepted as required in the current change management procedures.

Corrective Action Plan

Concur. There are project groups within the ETS Client Services Branch, composed of information technology specialist, who provide application support for each of the following applications: FAMIS, CWWS (Central Warrant Writer) and RECON (Warrant Reconciliation).

The current change management procedures, already established for the processing of user department-initiated system modifications, were discussed with the project group. In accordance with the tracking number assigned to each ETS 101 S1 Request Form, the project group will notate the correct tracking number on each production request form to ensure proper reference and completeness. Also, the need to include proper testing documentation and user authorization for changes to the production environment is being enforced.

Person Responsible Kyle Muranaka, ETS-CSB Section Chief

Anticipated Date of Completion June 30, 2021

STATE OF HAWAII

**CORRECTIVE ACTION PLAN
JUNE 30, 2020**

A mainframe emergency change was not properly documented to evidence that access to implement changes into the production environment was removed in timely matter for personnel responsible for development activities.

Corrective Action Plan

Concur. This refers to the Special Accounts being used to access the production environment. ETS-SSB has implemented a control to revoke the access privilege in a timely manner. The Special Accounts procedure has been revised to include this control.

Person Responsible Mario Othello Rigor, ETS-SSB Section Chief

Anticipated Date of Completion Completed

STATE OF HAWAII

CORRECTIVE ACTION PLAN JUNE 30, 2020

2020-006 – Eligibility (Significant Deficiency) State Department of Labor and Industrial Relations

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CFDA No. COVID-19 – 17.225 – COVIC-19 Unemployment Insurance
Direct award from the U.S. Department of Labor (Award no. UI-34711-20-55-A-15 2020)

Corrective Action Plan

Concur. DLIR management identified four areas of improper payment during the audit as described below:

- 1) Improper payment due to incorrect deductible earnings calculation on the PUA benefit system.

Due to the urgency of the State to provide PUA, the Department had minimal opportunity for testing prior to implementation. The error in the deductible earnings calculation was identified approximately 1 month after the first PUA payments were processed. The correction to the calculation was put into production on June 3, 2020, however it resulted in overpayments to some weeks claims.

- 2) Improper payments due to fraud/identity theft.

The Department took what was believed, at the time, to be reasonable security measures to identify potential fraud claims. The fraud detection system used credit score data matching and a fraud scoring system to identify fraud. As attacks began to increase and more analytic data became available, the fraud detection system was enhanced to identify suspicious banks, email addresses, IP addresses and other suspicious behavior to identify suspected ID theft. The Department implemented new ID verification processes to look back on already paid claims resulting in retroactive denials. To adequately address the widespread fraud, as of January 21, 2021, all claimants are required to provide ID verification documentation which includes a government issued ID, Social Security Card and a photo of themselves holding their government issued ID.

- 3) Improper payment because the claimant did not meet one of the acceptable COVID-19 eligibility reasons.

Per guidance from the USDOL in UIPL 16-20 Change 1, “An individual must self-certify that he or she is unemployed, partially unemployed, or unable or unavailable to work because of a COVID-19 related reason listed in section 2102(a)(3)(A)(ii)(I) of the CARES Act. Unlike DUA, an individual filing for PUA does not need to provide proof of employment or self-employment to qualify, nor does PUA take into account the individual’s principal source of income as part of the self-certification process.”

Based on this guidance, claims were initially paid based on self-certifications alone. As it became more apparent that the program was susceptible to fraud, the following guidance was subsequently provided to States in UIPL 16-20 change 2.

STATE OF HAWAII

CORRECTIVE ACTION PLAN JUNE 30, 2020

“While Section 2102 of the CARES Act relies on self-certification to verify that an individual is covered under the PUA program, the state has authority to request supporting documentation when investigating the potential for fraud and improper payments.”

In response to this guidance, the agency began reviewing claims that were suspicious in nature, resulting in retroactive denials when it was determined that claimants did not meet the COVID-19 eligibility requirements. The Department continues to review claims to ensure they meet the eligibility requirements in section 2102(a)(3)(A)(ii)(I) of the CARES Act.

- 4) Improper payment because the claimant was eligible or potentially eligible for regular UI or extended benefits.

PUA is not payable to individuals who are eligible for regular UI or EB under State or Federal law. Due to the urgency of the State to provide PUA, the Department did not have sufficient time to implement a crossmatch between the PUA benefit system and the Hawaii Unemployment Insurance (HUI) benefit system prior to payment. Initial payments were made out of the PUA benefits system on May 15, 2020 while the Department was in the process of programming a crossmatch with the regular UI system and UI wage records to identify eligible or potentially eligible UI claim. The crossmatch went into production on June 22, 2020, which identified a significant number of claims potentially eligible for regular UI. Implementation of this crossmatch has substantially decreased the number of improperly paid claims due to UI eligibility.

<u>Person Responsible</u>	Michelle Hamilton, UI Program Specialist/Federal Program Coordinator
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Anticipated Date of Completion	Completed
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