

OVERVIEW

THE AUDITOR
STATE OF HAWAII

Financial Audit of the Department of Human Services

Summary

The Office of the Auditor and the certified public accounting firm of KPMG Peat Marwick LLP conducted a financial audit of the Department of Human Services for the fiscal year July 1, 1996 to June 30, 1997. The audit examined the financial records and systems of accounting and internal controls and tested these for compliance with applicable laws and regulations. Total expenditures in the year under audit from all sources were \$1.3 billion of which \$519 million were from general funds.

In the opinion of the firm, the financial statements present fairly the department's financial position and its results of operation for the fiscal year ended June 30, 1997, in conformity with generally accepted accounting principles.

In their report on the internal control structure and its operations, KPMG Peat Marwick LLP noted matters they considered to be reportable conditions, some of which were material weaknesses. However, the firm noted no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Specifically, we found controls over financial assistance to individuals continue to be weak. Required annual eligibility re-verifications are not performed; data entry is not checked for accuracy; required income and eligibility verification checks are not performed; and required supervisory reviews of client case files are not performed. Quality control reviews that could detect errors are not being performed, and as a result, the department is paying out millions of dollars in error.

We also found the department's welfare benefit overpayment recovery system continues to be deficient. The system's current capabilities should be enhanced to improve efficiency. A significant number of welfare overpayment cases are not pursued by the department due to staffing constraints. These deficiencies have resulted in the department not collecting more than \$40 million of accumulated overpayments.

In addition, we found several serious problems with the department's Med-QUEST Division. It failed to adequately pursue over \$5 million in receivables due from QUEST participants; failed to review the work of its fiscal agent and as a result, made Medicaid overpayments in excess of \$500,000; and failed to timely execute contracts for 41 current Medicaid providers.



Finally, we found that the department has serious problems with its information technology controls over the HAWI system, and weaknesses in several other aspects of its internal control structure and operations.

Recommendations and Response

We recommend that the governor, the director of finance, and the director of human services re-evaluate the current allocation of resources at the department of human services. Consideration should be given to the current level and cost of quality assurance controls, savings that would result from improvements in quality assurance practices, and redistribution of resources to improve identification, monitoring and collection of overpayments. We also recommend that the director of human services exercise stronger oversight of the Med-QUEST Division to ensure that among other things, Medicaid overpayments to its fiscal agent are minimized and collection efforts of amounts due from QUEST clients are pursued.

Finally, we recommend that the department make modifications to the HAWI system and take steps to correct weaknesses in its internal controls and operations.

The department generally concurs with our findings and recommendations. It states that at the time of the audit review, the department was already developing and implementing corrective actions. However, it noted that staffing constraints and limited resources make some of the recommendations difficult to implement. The department further states that it will redouble its efforts in the recovery of overpayments and is prepared to improve collections to the degree that staffing will allow. It recognizes that there are funds that can be recovered with increased capabilities and assistance from the Department of the Attorney General.

The department provided additional comments in its response that explain its actions in addressing the problems identified in our report.

We made a few editorial changes to our draft report for clarity, consistency, and style.