

Office of the Auditor
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Jan K. Yamane
 Acting State Auditor
 State of Hawai'i

Constitutional Mandate

The Office of the Auditor, pursuant to Article VII, Section 10 of the Hawai'i State Constitution, is required to conduct post-audits of the transactions, accounts, program and performance of departments, offices and agencies of the State and its political subdivisions, and to certify to the accuracy of all financial statements issued by the respective accounting officers.

Financial Audit of the Department of Human Services

Financial Statements, Fiscal Year Ended June 30, 2012

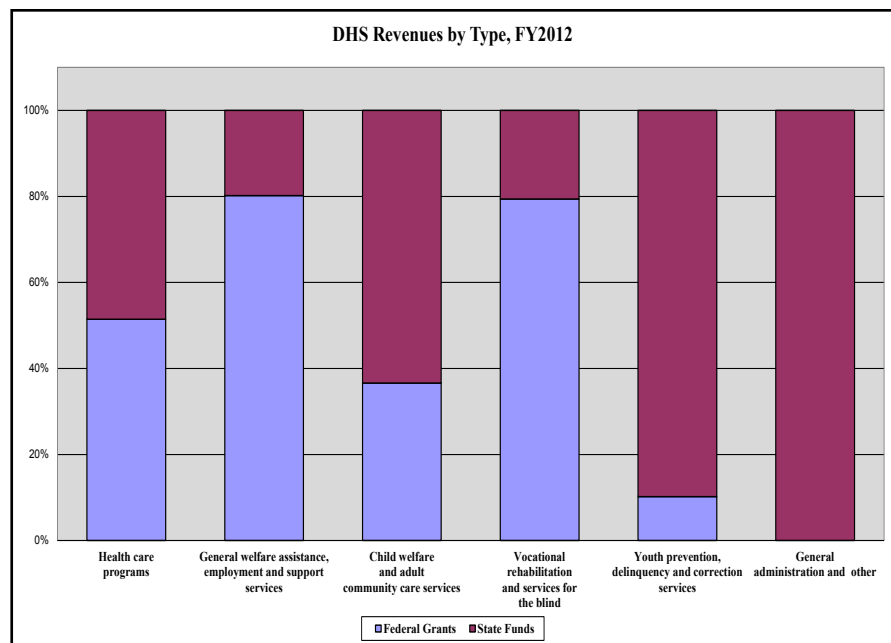
The primary purpose of our audit was to form an opinion on the fairness of the presentation of the financial statements for the Department of Human Services as of and for the fiscal year ended June 30, 2012, and to comply with the requirements of federal OMB Circular A-133, which established audit requirements for state and local governmental units that receive federal awards. The audit was conducted by N&K CPAs, Inc.

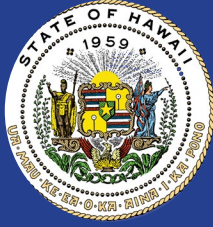
About the Department

The Department of Human Services' mission is to direct its resources toward protecting and helping those least able to care for themselves and to provide services designed toward achieving self-sufficiency for clients as quickly as possible. By working with community partners, the department helps clients escape poverty and achieve full employment; prevents abuse and neglect among children and vulnerable adults; strengthens families and promotes positive youth development; provides public health insurance for low-income adults and children; and empowers people with disabilities so they can enter or re-enter the workforce.

Financial Highlights

For the fiscal year ended June 30, 2012, the department reported total revenues and total expenses of approximately \$2.5 billion. Revenues consisted of \$1 billion of state revenues and \$1.5 billion in program revenues. Program revenues consist primarily of operating grants from the federal government. Revenues from these federal grants paid for 58.4 percent of the cost of the department's activities.





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Auditors' Opinions

Financial Statements: **+**
Unmodified opinion

Federal Compliance: **-**
Qualified opinion

Issues of Concern

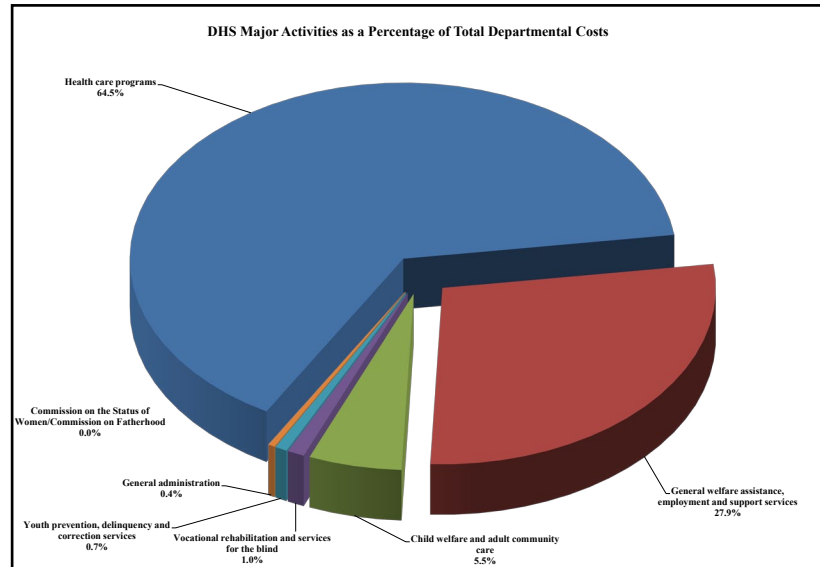
Material Weaknesses
5

Significant Deficiencies
4

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<http://auditor.hawaii.gov/>

Financial Highlights (cont.)

Health care and general welfare assistance programs comprised 64.5 percent and 27.9 percent, respectively, of the total costs. The following chart presents each major activity as a percentage of the total cost of all department activities.



Total assets of the department exceeded total liabilities by \$49 million. Of this amount, \$19 million is unrestricted and may be used to meet ongoing expenses. Total assets were approximately \$183 million and total liabilities was \$134 million. Total assets was comprised of cash of \$111 million, receivables of \$44 million, and net capital assets of \$28 million.

Auditors' Opinions

The department received an unmodified opinion that the basic financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. There were no reported deficiencies in internal control over financial reporting that were considered to be material weaknesses. However, the department received a qualified opinion on its compliance with major federal programs. There were five findings that were considered material weaknesses and four findings that were considered significant deficiencies.

Findings

Material Weaknesses:

- Some child care reimbursements are inaccurate;
- Eligibility applications and annual eligibility re-verifications are not done in a timely manner;
- Automatic data processing system risk analysis and system security review are not performed;
- Medicaid drug rebate program is not monitored;
- Utilization, fraud, and accuracy of Medicaid claims are inadequately controlled.

Significant Deficiencies:

- Time reports are not prepared accurately or in a timely manner;
- No formal policies and procedures to comply with the Federal Funding Accountability and Transparency Act;
- Subrecipient monitoring procedures are inadequate;
- Poor monitoring of subrecipient's compliance with matching requirements.

For further details on the findings, including the department's corrective action plan, visit our website at: http://files.hawaii.gov/auditor/Reports/2012_Audit/DHS2012.pdf