

**State of Hawaii
Department of Health
Financial and Compliance Audit
June 30, 2013**

**Submitted by
The Auditor
State of Hawaii**

State of Hawaii
Department of Health
Index

Page(s)

Part I – Financial Statements

Report of Independent Auditors

Management’s Discussion and Analysis (Unaudited)	4–12
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Financial Statements

Department-wide – Statement of Net Position June 30, 2013	13
Department-wide – Statement of Activities Year Ended June 30, 2013	14
Governmental Funds – Balance Sheet June 30, 2013	15
Reconciliation of the Governmental Funds’ Fund Balance to the Governmental Activities’ Net Position June 30, 2013	16
Governmental Funds – Statement of Revenues, Expenditures and Changes in Fund Balance Year Ended June 30, 2013	17
Reconciliation of the Governmental Funds’ Change in Fund Balance to the Governmental Activities’ Change in Net Position Year Ended June 30, 2013	18
General Fund – Budgetary Comparison Statement Year Ended June 30, 2013	19
Tobacco Settlement Fund – Budgetary Comparison Statement Year Ended June 30, 2013	20
Deposit Beverage Container Fund – Budgetary Comparison Statement Year Ended June 30, 2013	21
Proprietary Funds – Statement of Net Position June 30, 2013	22
Proprietary Funds – Statement of Revenues, Expenses and Changes in Fund Net Position Year Ended June 30, 2013	23
Proprietary Funds – Statement of Cash Flows Year Ended June 30, 2013	24–25
Fiduciary Funds – Statement of Fiduciary Net Position June 30, 2013	26
Notes to Financial Statements June 30, 2013	27–40

State of Hawaii
Department of Health
Index

	Page(s)
 Schedule of Expenditures of Federal Awards	
Schedule of Expenditures of Federal Awards Year Ended June 30, 2013	41–43
Notes to the Schedule of Expenditures of Federal Awards Year Ended June 30, 2013	44
 Part II – Government Auditing Standards	
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 <i>Government Auditing Standards</i>	
 Part III – OMB Circular A-133	
Report of Independent Auditors on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133	
 Part IV – Schedule of Findings and Questioned Costs	
Section I – Summary of Auditors’ Results Year Ended June 30, 2013	50
Section II – Financial Statement Findings Year Ended June 30, 2013	51–53
Section III – Federal Award Findings and Questioned Costs Year Ended June 30, 2013	54–62
 Part V – Prior Year Findings and Questioned Costs	
Status of Prior Year Findings and Questioned Costs Year Ended June 30, 2013	63
 Corrective Action Plan (Unaudited)	

Report of Independent Auditors

The Auditor
State of Hawaii

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of Hawaii, Department of Health (the "Department"), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the index.

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.

Auditors' 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 of 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 auditors' 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 auditors consider 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Department as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows and budgetary comparisons thereof 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 basic financial statements of the Department are intended to present the financial position and the changes in the financial position, cash flows and budgetary comparisons, where applicable, of only that portion of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of Hawaii that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2013, or the changes in its financial position and cash flows and budgetary comparisons, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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 4 through 12 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements. The schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* is presented for the purpose 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. As described in Note 1 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 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, which was prepared on the cash basis of accounting, a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America, is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 13, 2014 on our consideration of the Department'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 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 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 Department's internal control over financial reporting and compliance.

Accuity LLP

Honolulu, Hawaii
March 13, 2014

State of Hawaii
Department of Health
Management's Discussion and Analysis (Unaudited)
June 30, 2013

This Management Discussion and Analysis ("MD&A") presents a narrative overview and analysis of the financial activities and performance of the State of Hawaii, Department of Health (the "Department") during the fiscal year that ended on June 30, 2013. Please read it in conjunction with the Department's Financial Statements including its related notes (which follow this section) as well as the subsequent Schedule of Expenditures of Federal Awards ("SEFA"). The following is a brief description of the contents of those three sections:

Overview of the Financial Statements

This MD&A serves as an introduction to the Department's basic financial statements. The basic financial statements are comprised of three components: (1) department-wide financial statements; (2) fund financial statements; and (3) notes to the basic financial statements.

Department-wide Financial Statements

The department-wide financial statements provide information about the Department's overall financial position and results of operations. These statements, which are presented on an accrual basis of accounting, consist of the Statement of Net Position and the Statement of Activities.

The department-wide statements report information about the Department as a whole using accounting methods similar to those used by private sector companies. The statement of net position provides both short-term and long-term information about the Department's financial position, which assists in assessing the Department's economic condition at the end of the fiscal year. All of the current year revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. The department-wide financial statements include two statements:

- The *Statement of Net Position* presents all of the Department's assets and liabilities, with the difference between the two reported as "net position." Over time, increases and decreases in the Department's net position may serve as a useful indicator of whether the financial position of the Department is improving or deteriorating.
- The *Statement of Activities* presents information showing how the Department's net position changed during the most recent fiscal year.

The department-wide financial statements of the Department are further divided into two categories:

- *Governmental activities* –The activities in this section are primarily supported by State of Hawaii appropriations, funds from the tobacco settlement, beverage container deposit administrative fees, federal grants, and other fees.
- *Business-type activities* –These functions normally are intended to recover all or a significant portion of their costs through user's fees and charges to external users. These activities include the Department's two revolving loan funds.

Fund Financial Statements

The fund financial statements include the Department's: (1) governmental funds, for which activities are funded primarily from appropriations from the State of Hawaii, by revenues from the master tobacco settlement agreement between the states and tobacco companies, beverage container deposit program collections, and federal grants; (2) proprietary funds, which consist of revolving loan funds and are reported similar to business activities; and (3) fiduciary funds. The governmental funds are presented

State of Hawaii
Department of Health
Management's Discussion and Analysis (Unaudited)
June 30, 2013

on the modified accrual basis of accounting. The proprietary and the fiduciary funds are presented on the accrual basis of accounting.

The fund financial statements provide more detailed information about the Department's most significant funds and not the Department as a whole. In these statements, the financial activities of the Department are recorded in individual funds. 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 Department uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Funds are reported as a major fund or a non-major (other) fund. The Governmental Accounting Standards Board ("GASB") issued Statement 34, *Basic Financial Statements – Management's Discussion and Analysis – for State and Local Governments*, which sets forth the minimum criteria for the determination of major funds. The non-major funds are combined in a column in the fund financial statements.

The fund financial statements also include the budgetary comparison statements, which include reconciliations for the general fund, tobacco settlement fund, and deposit beverage container fund, comparing the excess of revenues over expenditures presented on a budgetary basis to the excess (deficiency) of revenues over expenditures presented in conformity with U.S. generally accepted accounting principles ("GAAP") as presented in the governmental fund financial statements.

To reiterate, the Department has three types of funds:

- *Governmental funds* – Governmental funds are used to account for essentially the same functions reported in the governmental activities in the department-wide financial statements. However, unlike the department-wide financial statements, governmental financial statements focus on near-term inflows and outflows of expendable resources as well as on the balances of expendable resources available at the end of the fiscal year.

Because the focus of governmental funds is narrower than that of the department-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the department-wide financial statements. Both the governmental fund balance sheet and statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate comparison between governmental funds and governmental activities in the department-wide financial statements.

- *Proprietary funds* – Proprietary funds are used to report activities that operate more like those of commercial enterprises. They are known as enterprise funds because they charge fees for services provided to outsiders. They are used to report the same functions presented as business-type activities in the department-wide financial statements. The Department uses enterprise funds to account for the operations of its two revolving loan funds each of which are considered to be major funds of the Department.
- *Fiduciary funds* – The fiduciary funds account for net position held in a trustee or agent capacity for others. These funds are not reflected in the department-wide financial statements since these resources are not available to support the Department's programs.

Notes to Financial Statements

The *Notes to Financial Statements* section provides additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements follow the basic financial statements.

State of Hawaii
Department of Health
Management's Discussion and Analysis (Unaudited)
June 30, 2013

Schedule of Expenditures of Federal Awards

Other information consists of the Schedule of Expenditures of Federal Awards and the Notes to the Schedule of Expenditures of Federal Awards. The SEFA reports federal awards to the Department expended on the cash basis of accounting for the year ended June 30, 2013.

Financial Highlights

- The Department's total net position increased from \$768.1 million as of June 30, 2012 to \$796.1 million as of June 30, 2013, or by approximately \$28.0 million. The total increase in net position was attributed to increases in the Department's governmental activities net position of \$2.8 million and business type activities' net position of \$25.2 million during the year.
- The Department's governmental funds reported an aggregate increase in fund balance of approximately \$4.3 million during the year totaling \$169.5 million at June 30, 2013. Note that this is based on the fund balance at June 30, 2012 of \$165.2 million.

The Department's proprietary funds, consisting of two revolving loan funds, reported an increase in net position of \$25.2 million for FY 2013. Total net position was \$592.7 million at June 30, 2013 compared to the FY 2012 year-end total of \$567.5 million.

Department-Wide Financial Analysis

This section includes condensed Department-wide financial information and analysis.

Condensed Statement of Net Position
June 30, 2013
(\$000)

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current assets	\$ 285,086	\$ 261,502	\$ 246,538	\$ 189,843	\$ 531,624	\$ 451,345
Capital assets	53,829	58,049	212	306	54,041	58,355
ARRA advances	-	-	12,198	15,460	12,198	15,460
Loans receivable, noncurrent	-	-	336,269	363,750	336,269	363,750
Total assets	\$ 338,915	\$ 319,551	\$ 595,217	\$ 569,359	\$ 934,132	\$ 888,910
Current liabilities	\$ 115,139	\$ 100,019	\$ 512	\$ 376	\$ 115,651	\$ 100,395
Long term liabilities	20,383	18,929	1,959	1,483	22,342	20,412
Total liabilities	135,522	118,948	2,471	1,859	137,993	120,807
Net position						
Net investment in capital assets	53,829	58,049	212	305	54,041	58,354
Restricted	132,369	121,494	592,534	567,195	724,903	688,689
Unrestricted	17,195	21,060	-	-	17,195	21,060
Total net position	203,393	200,603	592,746	567,500	796,139	768,103
Total liabilities and net position	\$ 338,915	\$ 319,551	\$ 595,217	\$ 569,359	\$ 934,132	\$ 888,910

State of Hawaii
Department of Health
Management's Discussion and Analysis (Unaudited)
June 30, 2013

As noted earlier, changes in net position may serve over time as a useful indicator of the Department's financial position. As of June 30, 2013, the Department's total net position was approximately \$796.1 million.

At June 30, 2013, in addition to cash in the state treasury approximating \$366.9 million, the Department had total loans receivable from county governments in the amount of \$366.8 million arising from its two revolving loan funds. The Department had total liabilities of \$138.0 million at June 30, 2013 of which \$10.6 million relates to accrued wages and employee benefits payable. Approximately \$62.1 million in liabilities relate to vouchers and contracts payable. At June 30, 2013, restricted net position was \$724.9 million. The restrictions arise from legal and contractual agreements.

Condensed Statement of Activities
Year Ended June 30, 2013
(\$000)

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenue						
Program revenues						
Charges for services	\$ 30,065	\$ 34,159	\$ 6,771	\$ 7,378	\$ 36,836	\$ 41,537
Operating grants and contributions	111,624	113,718	25,353	30,861	136,977	144,579
General revenues						
State appropriated funds	395,077	393,836	-	-	395,077	393,836
Non-imposed fringe benefits	44,801	42,611	-	-	44,801	42,611
Tobacco settlement funds	48,425	47,146	-	-	48,425	47,146
Environmental fees and taxes	39,534	58,324	-	-	39,534	58,324
Total revenues	669,526	689,794	32,124	38,239	701,650	728,033
Expenses						
General	36,945	39,466	-	-	36,945	39,466
Environmental health	49,409	64,029	12,750	37,261	62,159	101,290
Behavioral health	228,744	211,497	-	-	228,744	211,497
Health resources	331,127	304,893	-	-	331,127	304,893
Total expenses	646,225	619,885	12,750	37,261	658,975	657,146
Excess before transfers	23,301	69,909	19,374	978	42,675	70,887
Transfers	(20,511)	(54,678)	5,872	5,872	(14,639)	(48,806)
Change in net position	2,790	15,231	25,246	6,850	28,036	22,081
Net position						
Beginning of year	200,603	185,372	567,500	560,650	768,103	746,022
End of year	\$ 203,393	\$ 200,603	\$ 592,746	\$ 567,500	\$ 796,139	\$ 768,103

State of Hawaii
Department of Health
Management's Discussion and Analysis (Unaudited)
June 30, 2013

Governmental activities increased the Department's net position by \$2.8 million in FY 2013, which was a \$12.4 million or 81.7% decrease from FY 2012. This change is due to a decrease in revenues for the Deposit Beverage Container program in the Environmental Health Administration and an increase in expenditures in the Behavioral Health Administration ("BHA") and Health Resources Administration ("HRA"). The increase in expenditures for BHA is due to a significant amount of behavioral health services that were incurred during FY 2013 but paid after June 30, 2013. The increase in expenditures for HRA is due in part to an increase in waiver services for the Developmental Disabilities Division, an increase in purchase of services for Early Intervention Services in the Family Health Services Division and an increase in ambulance services incurred during FY 2013 but paid after June 30, 2013.

Revenues of the Department's business-type activities, which decreased by \$6.1 million from 2012, consist of the Department's environmental loan programs — one for water pollution control and the other for drinking water treatment — were generated from charges for services, program investment income, and federal assistance program funds as well as state matching funds. Charges for services consist primarily of administration loan fees and interest income on loans related to the Department's two revolving loan programs. The majority of the programs' investment income is from the Department's participation in the State Treasury Investment Pool System.

For the fiscal year ended June 30, 2013, business-type activities increased the Department's net position by \$25.2 million to \$592.7 million as compared to the fiscal year ending June 30, 2012.

Total Department-wide expenses for FY 2013 were \$659.0 million of which \$646.2 million was for governmental activities. As compared to FY 2012, total Department-wide expenses were \$657.1 million of which \$619.9 million was for governmental activities. Overall, the Department is organized into four major administrations.

The Behavioral Health Services Administration expended a significant 34.7 percent or \$228.7 million of departmental funds with an increase of \$17.2 million over FY 2012. This administration is responsible for providing available and coordinated mental health and substance abuse treatment and prevention programs. Programs within this administration are:

- Adult Mental Health Division ("AMHD") that includes the Hawaii State Hospital and Community Mental Health Center Branches;
- Child and Adolescent Mental Health Division ("CAMHD") which includes seven Family Guidance Centers and the Family Court Liaison Branches; and
- Alcohol and Drug Abuse Division ("ADAD") which plans for and purchases substance abuse prevention and treatment services for adolescents and adults.

The increase in expenditures is primarily attributed to a significant number of invoices dated prior to July 1, 2013 that were paid after June 30, 2013 for various behavioral health services.

State of Hawaii
Department of Health
Management's Discussion and Analysis (Unaudited)
June 30, 2013

The Health Resources Administration expended approximately 50.3 percent of all expenses. FY 2013 expenditures for this Administration increased \$26.2 million over FY 2012. Major programs in this administration include:

- Developmental Disabilities Division (“DDD”) that services disabled clients in Hawaii while addressing the conditions of the Makin Settlement;
- Family Health Services Division (“FHSD”) that administers the State’s Early Intervention program for children zero to three in compliance with the Federal Individual with Disabilities Education Act, Part C as well as serving children, youth and families through its three branches, namely, Children with Special Health Needs, Maternal and Child Health, and Women, Infants and Children;
- Emergency Medical Services and Injury Prevention System Branch (“EMSIPSB”) that includes the State’s mandated Emergency Medical Services, which operates the State’s emergency ambulance service in the four major counties, and the injury prevention program;
- Communicable Disease Division which provides tuberculosis control, Hansen’s disease control programs in the community and at Kalaupapa, and STD/AIDS prevention services;
- Disease Outbreak Control Division which provides immunization and disease investigation services as well as provides emergency response to disease outbreaks and potential acts of bioterrorism;
- General Medical and Preventative Services Division provides public health dental services to the State’s disabled clientele and public health nursing services.

The increase in expenditures is mainly due to an increase in waiver services provided by the DDD, an increase in purchase of services for Early Intervention Services in FHSD and an increase in payments made for invoices dated prior to July 1, 2013 for ambulance services in EMSIPSB that were paid after June 30, 2013.

This administration provides a wide array of public health services in addition to meeting the court settlement conditions, which results in the expenditure of a high percentage of departmental funds.

The Environmental Health Administration is responsible for the management of the clean air, clean water, solid and hazardous waste, public health sanitation, vector control, and purity of food and drugs. It expended approximately 9.4 percent of the departmental funds with a decrease of \$39.1 million expended versus FY 2012. The decrease in expenses is partially due to a much smaller forgiveness of \$6.2 million in State Revolving Fund loans to the counties under the American Recovery and Reinvestment Act, which are heavily federally funded through the Environmental Protection Agency. This administration also manages both the Water Pollution Control Revolving and the Drinking Water Treatment Revolving Loan Funds.

Finally, General Administration provides the overall leadership and oversight for the Department. It includes administrative support staff, three district health offices, and five administratively attached agencies. This administration expends approximately 5.6 percent of the departmental funds.

State of Hawaii
Department of Health
Management's Discussion and Analysis (Unaudited)
June 30, 2013

The following table presents revenues and expenditures of the governmental funds for FY 2013 and FY 2012 (\$000):

	2013	2012
Revenues		
State general fund allotments	\$ 395,077	\$ 393,836
Non-imposed fringe benefits	44,801	42,611
Tobacco settlement funds	48,245	48,746
Deposit beverage container program	21,507	39,414
Intergovernmental	122,178	129,327
Taxes, fees, fines and other	37,247	39,582
Investment income (loss)	1,108	(12)
Total revenues	<u>670,163</u>	<u>693,504</u>
Expenditures		
General administration	34,612	39,744
Environmental health	48,759	63,911
Behavioral health	227,560	210,986
Health resources	328,788	303,605
Total expenditures	<u>639,719</u>	<u>618,246</u>
Excess of revenues over expenditures before transfers	<u>\$ 30,444</u>	<u>\$ 75,258</u>

The governmental funds revenue consist of the Department's general fund, tobacco settlement funds, deposit beverage container funds, intergovernmental (federal) funds, taxes, fees, fines and investment income.

During the fiscal year ended June 30, 2013, general fund revenues were \$434.1 million, including \$44.7 million for fringe benefits paid directly from the State general fund. General fund expenditures were \$429.0 million.

For FY 2013, the tobacco settlement fund earned revenues of \$48.4 million. A net amount of \$19.4 million was transferred to other State departments and agencies of which \$4.6 million was for the Children's Health Insurance Program of the Department of Human Services, \$12.7 million was for the University of Hawaii to pay debt service on revenue bonds to support construction of a new health and wellness center, to include a new medical school and bioresearch center in Kakaako, and \$21.5 million was required to be transferred to the State's General Fund.

In FY 2013, the deposit beverage container fund earned revenues of \$21.7 million from beverage container deposit administrative fees and unredeemed containers and investment income. Of this amount received, \$17.3 million in expenditures were paid to redemption centers or utilized to fund the program. The fund collected \$45.6 million in deposits from distributors and repaid \$38.3 million in deposits to consumers during FY 2013.

The proprietary funds consist of two funds: Water Pollution Control Revolving Fund and Drinking Water Treatment Revolving Loan Fund and are reported in the department-wide statement of net position and statement of activities as business-type activities.

State of Hawaii
Department of Health
Management's Discussion and Analysis (Unaudited)
June 30, 2013

The Water Pollution Control Revolving Fund accounts for federal and state funds used to provide loans to county governments for the construction of wastewater treatment facilities and the repayment of principal, interest and fees from such loans and investment of such monies. During FY 2013, this fund received \$19.0 million and \$3.2 million of federal and state funds, respectively. The fund also disbursed \$28.5 million in loan proceeds and collected \$46.5 million in principal repayments in 2013. As compared to 2012, the fund collected \$24.9 million and \$3.2 million in federal and state contributions, and disbursed \$48.5 million in loan proceeds and collected \$27.6 million in principal payments.

The Drinking Water Treatment Revolving Loan Fund accounts for federal and state match funds used to provide loans and other types of financial assistance to public water systems for drinking water infrastructure and the repayment of principal interest and fees from such loans and the investment of such monies. During FY 2013, this fund received \$4.7 million and \$2.7 million of federal and state funds, respectively. The fund also disbursed \$3.3 million in loan proceeds and collected \$15.1 million in principal repayments in 2013. As compared to 2012, the fund collected \$5.6 million and \$2.7 million in federal and state contributions, and disbursed \$3.4 million in loan proceeds and collected \$5.1 million in principal payments.

The Department accounts for funds held as an agent and/or trustee for certain individuals in the fiduciary funds.

Budgetary Analysis

The following budget information relates to the general fund, tobacco settlement fund, and deposit beverage container fund for 2013:

	Budgeted Amounts (\$000)		Actual on a Budgetary Basis (\$000)
	Original	Final	
General fund			
Revenues	\$ 408,773	\$ 411,149	\$ 397,728
Expenditures			
General administration	26,425	26,428	24,341
Environmental health	16,158	16,208	15,361
Behavioral health	189,387	190,700	184,060
Health resources	176,803	177,813	173,966
Tobacco settlement fund			
Revenues	59,137	59,248	48,258
Expenditures	59,137	59,248	51,500
Deposit beverage container fund			
Revenues	86,250	86,250	58,200
Expenditures	86,250	86,250	69,043

The differences between the original budgeted appropriation and actual expenditures for the general fund were due in part to the \$3.6 million in restrictions that were assessed against the Department for FY 2013.

For the tobacco settlement fund, the actual expenditures of \$51.5 million in FY 2013 were \$3.2 million more than the actual revenues received.

State of Hawaii
Department of Health
Management's Discussion and Analysis (Unaudited)
June 30, 2013

The deposit beverage container program recognized revenues on a budgetary basis of \$58.2 million, which is based on the actual number of containers sold. In fiscal year 2012, there were 907.1 million containers sold. The amount of containers sold increased to 911.8 million in fiscal year 2013.

Capital Assets

As of June 30, 2013, the Department's governmental activities had invested approximately \$53.8 million (net of accumulated depreciation) in a broad range of capital assets. See Note 4 to the Department's financial statements for a description of capital assets activities for the fiscal year ended June 30, 2013.

Capital Assets
Governmental Activities
June 30, 2013
(\$000)

	2013	2012
Land	\$ 1,018	\$ 1,018
Land and building improvements	149,634	146,376
Furniture and equipment	22,754	22,896
Total	173,406	170,290
Accumulated depreciation	119,577	112,241
Total capital assets, net	\$ 53,829	\$ 58,049

Currently Known Facts, Decisions, or Conditions

Although the State's economy improved since last fiscal year, the State continued its cautious approach regarding expenditures. Therefore, the Department has continued to evaluate and monitor the statewide service delivery system of the adult mental health program in order to improve service delivery and to contain operational costs.

In FY 2013, AMHD serviced 10,728 clients as compared to the 11,062 clients serviced in FY 2012. AMHD's Access Line continues to provide the community with a resource site for information as well as a referral point for possible clients.

In the developmental disabilities program, the number of clients increased by 41 clients in FY 2013. In FY 2013, the program served 2,599 clients in the home and community-based waiver program as compared to 2,558 clients served in FY 2012. Further, the Federal Medical Assistance Percentage ("FMAP") decreased from 51.79 percent to 50.48 percent for the period October 2011 to September 2012. The FMAP increased from 50.48% to 51.86% effective October 2012 to September 2013. The FY 2013 year-end Average Cost per Client ("APC") decreased to \$39,739 as compared to the FY 2012 year-end APC of \$40,231.

And lastly, the Water Pollution Control Revolving Fund ("WPCRF") executed a total of three loan agreements for \$13.2 million. The Drinking Water Treatment Revolving Loan Fund ("DWTRLF") executed a total of ten loan agreements for \$27.7 million during FY 2013. Further, the WPCRF expected to execute a total of six loan agreements in the amount of \$30.5 million while the DWTRLF expected to execute a total of nine loan agreements for \$30.9million in FY 2014.

State of Hawaii
Department of Health
Department-wide – Statement of Net Position
June 30, 2013

	Governmental Activities	Business-Type Activities	Total
Assets			
Current assets			
Equity in cash and cash equivalents and investments in State Treasury	\$ 153,115,371	\$ 213,768,530	\$ 366,883,901
Receivables			
Due from State Treasury	92,864,715	-	92,864,715
Due from other State agencies	7,926,000	-	7,926,000
Accrued interest and loan fees	-	1,612,171	1,612,171
Accounts receivable	1,271,589	-	1,271,589
Due from Federal government	4,608,026	593,963	5,201,989
Tobacco settlement receivable	25,300,000	-	25,300,000
Current maturities of loans receivable	-	30,563,507	30,563,507
	<u>131,970,330</u>	<u>32,769,641</u>	<u>164,739,971</u>
Total current assets	285,085,701	246,538,171	531,623,872
ARRA advances	-	12,198,183	12,198,183
Loans receivable, net of current maturities	-	336,268,728	336,268,728
Capital assets, net of accumulated depreciation	<u>53,829,235</u>	<u>211,665</u>	<u>54,040,900</u>
Total assets	<u>\$ 338,914,936</u>	<u>\$ 595,216,747</u>	<u>\$ 934,131,683</u>
Liabilities and Net Position			
Current liabilities			
Vouchers and contracts payable	\$ 61,939,665	\$ 165,914	\$ 62,105,579
Accrued wages and employee benefits payable	10,492,232	114,014	10,606,246
Accrued vacation, current portion	7,870,939	84,014	7,954,953
Workers' compensation liability	570,638	-	570,638
Deferred income	5,381,114	-	5,381,114
Due to other State agencies	26,953,256	147,867	27,101,123
Beverage container deposits	<u>1,931,621</u>	<u>-</u>	<u>1,931,621</u>
Total current liabilities	115,139,465	511,809	115,651,274
Accrued vacation, net of current portion	20,382,561	345,445	20,728,006
Other postemployment benefits	<u>-</u>	<u>1,613,454</u>	<u>1,613,454</u>
Total liabilities	135,522,026	2,470,708	137,992,734
Commitments and contingencies			
Net position			
Net investment in capital assets	53,829,235	211,665	54,040,900
Restricted for			
Loans	-	592,534,374	592,534,374
Tobacco prevention and control	17,586,676	-	17,586,676
Capital projects	5,674,950	-	5,674,950
Other purposes	109,106,875	-	109,106,875
Unrestricted	<u>17,195,174</u>	<u>-</u>	<u>17,195,174</u>
Total net position	<u>203,392,910</u>	<u>592,746,039</u>	<u>796,138,949</u>
Total liabilities and net position	<u>\$ 338,914,936</u>	<u>\$ 595,216,747</u>	<u>\$ 934,131,683</u>

The accompanying notes are an integral part of this statement.

State of Hawaii
Department of Health
Department-wide – Statement of Activities
Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Primary Government		
				Governmental Activities	Business-Type Activities	Total
Primary government						
Governmental activities						
General administration	\$ 36,945,251	\$ 831,556	\$ 13,952,912	\$ (22,160,783)	\$ -	\$ (22,160,783)
Environmental health administration	49,408,574	7,535,088	11,091,374	(30,782,112)	-	(30,782,112)
Behavioral health services administration	228,744,488	13,045,421	5,777,045	(209,922,022)	-	(209,922,022)
Health resources administration	331,126,563	8,653,514	80,802,217	(241,670,832)	-	(241,670,832)
Total governmental activities	646,224,876	30,065,579	111,623,548	(504,535,749)	-	(504,535,749)
Business-type activities						
Environmental health loan programs	12,750,096	6,770,838	25,353,251	-	19,373,993	19,373,993
Total business-type activities	12,750,096	6,770,838	25,353,251	-	19,373,993	19,373,993
Total primary government	\$ 658,974,972	\$ 36,836,417	\$ 136,976,799	(504,535,749)	19,373,993	(485,161,756)
General revenues						
State general fund allotments, net				395,077,309	-	395,077,309
Non-imposed employee fringe benefits				44,800,550	-	44,800,550
Environmental response tax				1,294,528	-	1,294,528
Deposit beverage container fee				21,659,000	-	21,659,000
Advance glass disposal fee				803,923	-	803,923
Tobacco tax				15,776,664	-	15,776,664
Tobacco settlement funds				48,424,820	-	48,424,820
Transfers				(20,511,104)	5,872,000	(14,639,104)
Total general revenues and transfers				507,325,690	5,872,000	513,197,690
Change in net position				2,789,941	25,245,993	28,035,934
Net position at July 1, 2012				200,602,969	567,500,046	768,103,015
Net position at June 30, 2013				\$ 203,392,910	\$ 592,746,039	\$ 796,138,949

The accompanying notes are an integral part of this statement.

State of Hawaii
Department of Health
Governmental Funds – Balance Sheet
June 30, 2013

	General	Tobacco Settlement	Deposit Beverage Container	Other Funds	Total Governmental
Assets					
Equity in cash and cash equivalents and investments in State Treasury	\$ -	\$ 26,288,074	\$ 19,765,323	\$ 107,061,974	\$ 153,115,371
Due from State Treasury	87,189,765	-	-	5,674,950	92,864,715
Due from other State agencies	-	-	-	4,096,000	4,096,000
Internal balances	-	-	-	-	-
Accrued interest receivable	-	-	-	-	-
Accounts receivable	-	-	1,271,588	-	1,271,588
Due from Federal government	-	-	-	4,608,026	4,608,026
Total assets	<u>\$ 87,189,765</u>	<u>\$ 26,288,074</u>	<u>\$ 21,036,911</u>	<u>\$ 121,440,950</u>	<u>\$ 255,955,700</u>
Liabilities and Fund Balances					
Liabilities					
Vouchers and contracts payable	\$ 37,435,079	\$ 2,933,297	\$ 5,264,074	\$ 16,307,215	\$ 61,939,665
Accrued wages and employee benefits	7,860,905	135,360	31,550	2,464,417	10,492,232
Deferred income	-	-	-	5,381,114	5,381,114
Due to other State agencies	1,080,515	5,632,741	-	-	6,713,256
Beverage container deposits	-	-	1,931,621	-	1,931,621
Total liabilities	<u>46,376,499</u>	<u>8,701,398</u>	<u>7,227,245</u>	<u>24,152,746</u>	<u>86,457,888</u>
Fund balance (deficit)					
Restricted for					
Federal grant programs	-	-	-	-	-
Trust fund programs	-	-	-	3,971,497	3,971,497
Medicaid programs	-	-	-	29,676,436	29,676,436
Committed to					
Health resources administration	-	-	-	36,035,224	36,035,224
Behavioral health administration	-	-	-	1,619,328	1,619,328
Environmental health administration	-	-	-	18,463,514	18,463,514
General administration	-	-	-	1,985,093	1,985,093
Tobacco settlement program	-	17,586,676	-	-	17,586,676
Deposit beverage container program	-	-	11,209,082	-	11,209,082
Capital projects activities	-	-	-	5,674,950	5,674,950
Assigned to					
Behavioral health administration	34,658,217	-	-	-	34,658,217
Health resources administration	6,543,560	-	-	-	6,543,560
General administration	10,441,655	-	-	-	10,441,655
Environmental health administration	388,575	-	-	-	388,575
Unassigned	<u>(11,218,741)</u>	<u>-</u>	<u>2,600,584</u>	<u>(137,838)</u>	<u>(8,755,995)</u>
Total fund balance	<u>40,813,266</u>	<u>17,586,676</u>	<u>13,809,666</u>	<u>97,288,204</u>	<u>169,497,812</u>
Total liabilities and fund balance	<u>\$ 87,189,765</u>	<u>\$ 26,288,074</u>	<u>\$ 21,036,911</u>	<u>\$ 121,440,950</u>	<u>\$ 255,955,700</u>

The accompanying notes are an integral part of this statement.

State of Hawaii
Department of Health
Reconciliation of the Governmental Funds' Fund Balance to the
Governmental Activities' Net Position
June 30, 2013

Total fund balance – governmental funds	\$ 169,497,812
Amounts reported for governmental activities in the statement of net assets are different because	
Tobacco settlement receivable (net of vouchers payable and Due to State of Hawaii amounts) is not available for current financial resources and therefore is not reported as an asset in the governmental funds.	5,060,000
Capital assets used in governmental activities are not financial resources and therefore not reported as an asset in the governmental funds.	53,829,235
Compensated absences reported in the statement of net position do not require the use of current financial resources and therefore are not reported as liabilities in the governmental funds.	(28,253,500)
Workers' compensation liability reported in the statement of net assets does not require the use of current financial resources and therefore is not reported as a liability in the governmental funds.	(570,638)
Receivables from other State agencies are not available to pay for current-period expenditures and therefore are not reported as an asset in the governmental funds.	3,830,001
Net position of governmental activities	<u>\$ 203,392,910</u>

The accompanying notes are an integral part of this statement.

State of Hawaii
Department of Health
Governmental Funds – Statement of Revenues, Expenditures and Changes in Fund Balance
Year Ended June 30, 2013

	General	Tobacco Settlement	Deposit Beverage Container	Other Funds	Total
Revenues					
State allotment, net	\$ 389,355,059	\$ -	\$ -	\$ 5,722,250	\$ 395,077,309
Intergovernmental	-	-	-	122,178,301	122,178,301
Tobacco settlement	-	48,245,406	-	-	48,245,406
Deposit beverage container program	-	-	21,506,968	-	21,506,968
Non-imposed employee fringe benefits	44,697,640	-	-	102,910	44,800,550
Taxes, fees, fines and other	-	-	-	37,246,914	37,246,914
Investment income	-	179,414	152,032	776,267	1,107,713
Total revenues	434,052,699	48,424,820	21,659,000	166,026,642	670,163,161
Expenditures					
General administration	20,167,666	-	-	14,444,094	34,611,760
Environmental health	19,710,175	-	17,308,453	11,740,598	48,759,226
Behavioral health services	206,421,284	-	-	21,138,267	227,559,551
Health resources	182,701,813	22,596,260	-	123,490,204	328,788,277
Total expenditures	429,000,938	22,596,260	17,308,453	170,813,163	639,718,814
Excess (deficiency) of revenues over expenditures	5,051,761	25,828,560	4,350,547	(4,786,521)	30,444,347
Other financing sources (uses)					
Transfers in	-	1,607,187	2,347,985	64,919,808	68,874,980
Transfers out	(8,766,664)	(21,021,047)	(2,347,985)	(62,839,295)	(94,974,991)
Total other financing sources (uses)	(8,766,664)	(19,413,860)	-	2,080,513	(26,100,011)
Net change in fund balance	(3,714,903)	6,414,700	4,350,547	(2,706,008)	4,344,336
Fund balance at July 1, 2012	44,528,169	11,171,976	9,459,119	99,994,212	165,153,476
Fund balance at June 30, 2013	\$ 40,813,266	\$ 17,586,676	\$ 13,809,666	\$ 97,288,204	\$ 169,497,812

The accompanying notes are an integral part of this statement.

State of Hawaii
Department of Health
Reconciliation of the Governmental Funds' Change in Fund Balance to the
Governmental Activities' Change in Net Position
Year Ended June 30, 2013

Net change in fund balance – total governmental funds	\$ 4,344,336
Amounts reported for governmental activities in the statement of activities are different because	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays for the year.	(4,219,710)
Increase in 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 the governmental funds.	(856,253)
Increase in the noncurrent portion of workers' compensation liability reported in the statement of activities do not require the use of current financials resources and therefore is not reported as an expenditure in the governmental funds.	(56,432)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.	<u>3,578,000</u>
Change in net position of governmental activities	<u>\$ 2,789,941</u>

The accompanying notes are an integral part of this statement.

State of Hawaii
Department of Health
General Fund – Budgetary Comparison Statement
Year Ended June 30, 2013

	Budgeted Amounts		Actual Amounts
	Original	Final	(Budgetary Basis)
Revenues			
Current-year appropriations	\$ 408,772,796	\$ 411,148,638	\$ 397,727,516
Total revenues	408,772,796	411,148,638	397,727,516
Expenditures			
General administration	26,424,994	26,427,888	24,341,065
Environmental health administration	16,157,475	16,207,887	15,360,961
Behavioral health services administration	189,387,436	190,700,413	184,059,547
Health resources administration	176,802,891	177,812,450	173,965,943
Total expenditures	408,772,796	411,148,638	397,727,516
Excess of revenues over expenditures	\$ -	\$ -	\$ -

The accompanying notes are an integral part of this statement.

State of Hawaii
Department of Health
Tobacco Settlement Fund – Budgetary Comparison Statement
Year Ended June 30, 2013

	Budgeted Amounts		Actual Amounts
	Original	Final	(Budgetary Basis)
Revenues			
Current-year funds	\$ 59,137,496	\$ 59,247,737	\$ 48,257,650
Total revenues	59,137,496	59,247,737	48,257,650
Expenditures			
Health resources administration	59,137,496	59,247,737	51,499,905
Total expenditures	59,137,496	59,247,737	51,499,905
Excess of revenues over expenditures	\$ -	\$ -	\$ (3,242,255)

The accompanying notes are an integral part of this statement.

State of Hawaii
Department of Health
Deposit Beverage Container Fund – Budgetary Comparison Statement
Year Ended June 30, 2013

	Budgeted Amounts		Actual Amounts
	Original	Final	(Budgetary Basis)
Revenues			
Current-year funds	\$ 86,249,924	\$ 86,249,950	\$ 58,199,697
Total revenues	86,249,924	86,249,950	58,199,697
Expenditures			
Environmental health administration	86,249,924	86,249,950	69,043,229
Total expenditures	86,249,924	86,249,950	69,043,229
Excess of expenditures over revenues	\$ -	\$ -	\$ (10,843,532)

The accompanying notes are an integral part of this statement.

State of Hawaii
Department of Health
Proprietary Funds – Statement of Net Position
June 30, 2013

	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Loan Fund	Total
Assets			
Current assets			
Equity in cash and cash equivalents and investments in State Treasury	\$ 148,844,338	\$ 64,924,192	\$ 213,768,530
Loan fees receivable	280,708	628,538	909,246
Accrued interest receivable	504,550	62,065	566,615
Other accrued interest	94,184	42,126	136,310
Due from federal government	101,592	492,371	593,963
Current portion of loans receivable	26,199,474	4,364,033	30,563,507
Total current assets	176,024,846	70,513,325	246,538,171
ARRA advances	12,198,183	-	12,198,183
Loans receivable, net of current portion	279,296,020	56,972,708	336,268,728
Capital assets, net of accumulated depreciation, at cost	26,982	184,683	211,665
Total assets	\$ 467,546,031	\$ 127,670,716	\$ 595,216,747
Liabilities			
Current liabilities			
Accounts payable and other accrued liabilities	\$ 162,747	\$ 349,062	\$ 511,809
Total current liabilities	162,747	349,062	511,809
Accrued vacation, net of current portion	212,568	132,877	345,445
Other postemployment benefits	1,123,640	489,814	1,613,454
Total liabilities	1,498,955	971,753	2,470,708
Net Position			
Net investment in capital assets	26,982	184,683	211,665
Restricted – expendable	466,020,094	126,514,280	592,534,374
Total net position	466,047,076	126,698,963	592,746,039
Total liabilities and net position	\$ 467,546,031	\$ 127,670,716	\$ 595,216,747

The accompanying notes are an integral part of this statement.

State of Hawaii
Department of Health
Proprietary Funds – Statement of Revenues, Expenses and
Changes in Fund Net Position
Year Ended June 30, 2013

	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Loan Fund	Total
Operating revenues			
Interest income from loans	\$ 2,478,653	\$ 226,483	\$ 2,705,136
Administrative loan fee	1,838,180	2,227,522	4,065,702
Total revenues	4,316,833	2,454,005	6,770,838
Expenses			
Administrative	1,926,407	751,362	2,677,769
State program management	-	1,220,000	1,220,000
Water protection	-	638,121	638,121
Total expenses	1,926,407	2,609,483	4,535,890
Operating income (loss)	2,390,426	(155,478)	2,234,948
Nonoperating revenues and expenses			
State contributions	3,157,000	2,715,000	5,872,000
Federal contributions	16,376,424	4,381,776	20,758,200
Federal ARRA contributions	2,581,472	367,813	2,949,285
Principal forgiveness for SRF	(1,000,000)	(1,003,006)	(2,003,006)
Principal forgiveness for ARRA	-	(6,211,200)	(6,211,200)
Other interest income	1,346,487	299,279	1,645,766
Total nonoperating revenues and expenses	22,461,383	549,662	23,011,045
Change in net position	24,851,809	394,184	25,245,993
Net position			
Beginning of year	441,195,267	126,304,779	567,500,046
End of year	\$ 466,047,076	\$ 126,698,963	\$ 592,746,039

The accompanying notes are an integral part of this statement.

State of Hawaii
Department of Health
Proprietary Funds – Statement of Cash Flows
Year Ended June 30, 2013

	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Loan Fund	Total
Cash flows from operating activities			
Interest income from loans	\$ 2,662,419	\$ 230,212	\$ 2,892,631
Administrative loan fees	1,961,831	2,282,949	4,244,780
Principal repayments on loans	46,522,800	15,132,349	61,655,149
Disbursement of loan proceeds	(28,536,404)	(3,315,509)	(31,851,913)
Payments to employees	(1,466,488)	(863,199)	(2,329,687)
Payments to vendors	(148,765)	(1,351,984)	(1,500,749)
Net cash provided by operating activities	20,995,393	12,114,818	33,110,211
Cash flows from noncapital financing activities			
State contributions	3,157,000	2,715,000	5,872,000
Federal contributions	16,274,831	4,129,006	20,403,837
Federal ARRA contributions	2,581,472	367,813	2,949,285
Disbursement of ARRA advances	(2,581,472)	(367,813)	(2,949,285)
Net cash provided by noncapital financing activities	19,431,831	6,844,006	26,275,837
Cash flows from investing activities			
Other interest income	1,308,692	281,523	1,590,215
Net cash provided by investing activities	1,308,692	281,523	1,590,215
Net increase in cash	41,735,916	19,240,347	60,976,263
Equity in cash and cash equivalents and investments in State Treasury			
Beginning of year	107,108,422	45,683,845	152,792,267
End of year	\$ 148,844,338	\$ 64,924,192	\$ 213,768,530

The accompanying notes are an integral part of this statement.

State of Hawaii
Department of Health
Proprietary Funds – Statement of Cash Flows
Year Ended June 30, 2013

	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Loan Fund	Total
Reconciliation of operating income (loss) to net cash provided by operating activities			
Operating income (loss)	\$ 2,390,426	\$ (155,478)	\$ 2,234,948
Adjustments to reconcile operating income (loss) to net cash provided by operating activities			
Depreciation expense	9,902	83,971	93,873
Principal forgiveness for SRF	(1,000,000)	(1,003,006)	(2,003,006)
Change in assets and liabilities			
Loan fees receivable	123,651	55,429	179,080
Accrued interest on loans receivables	183,766	3,727	187,493
Loans receivable	18,986,395	12,819,846	31,806,241
Accounts payable and other accrued liabilities	21,214	148,016	169,230
Other postemployment benefits	280,039	162,313	442,352
Net cash provided by operating activities	<u>\$ 20,995,393</u>	<u>\$ 12,114,818</u>	<u>\$ 33,110,211</u>

The accompanying notes are an integral part of this statement.

State of Hawaii
Department of Health
Fiduciary Funds – Statement of Fiduciary Net Position
June 30, 2013

	Agency Funds
Assets	
Cash and cash equivalents	\$ 430,253
Total assets	<u>\$ 430,253</u>
Liabilities	
Due to others	\$ 430,253
Total liabilities	<u>\$ 430,253</u>

The accompanying notes are an integral part of this statement.

State of Hawaii
Department of Health
Notes to Financial Statements
June 30, 2013

1. Organization and Summary of Significant Accounting Policies

Financial Reporting Entity

The State of Hawaii, Department of Health (the "Department"), administers and oversees statewide personal health services, health promotion and disease prevention, mental health programs, monitoring of the environment, and the enforcement of environmental health laws. Federal grants received to support the State's health services and programs are administered by the Department.

The accompanying financial statements of the Department have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") prescribed by the Governmental Accounting Standards Board ("GASB").

The Department is part of the executive branch of the State of Hawaii (the "State"). The financial statements of the Department are intended to present the financial position and the changes in financial position and cash flows, where applicable, of only that portion of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State as of June 30, 2013, and the changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America. The State Comptroller maintains the central accounts for all State funds and publishes a comprehensive annual financial report for the State annually, which includes the Department's financial activities.

Act 262, Session Laws of Hawaii of 1996, established the Hawaii Health Systems Corporation ("HHSC") as a public body corporate and politic and an instrumentality and agency of the State. HHSC consists of the state hospitals and was created to provide quality health care for all of the people in the state. HHSC commenced operations on July 1, 1996 and is administratively attached to the Department. However, HHSC is a component unit of the State and not the Department. HHSC's stand-alone financial statements are included in the State's comprehensive annual financial report but are not included in the Department's basic financial statements.

Department-wide Financial Statements

The Department-wide statements of net position and activities 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 imposed by the provider have been met.

Certain eliminations have been made as prescribed by GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, related to interfund activities, receivables, and payables. All internal balances have been eliminated except those representing balances between governmental and business-type activities, which are presented as internal balances and eliminated in the total department column when applicable. In the statement of activities, those transactions between governmental and business-type activities have not been eliminated. In addition, the fiduciary funds account for net position held in a trustee or agent capacity for others. These funds are not reflected in the department-wide financial statements since these resources are not available to support the Department's programs.

State of Hawaii
Department of Health
Notes to Financial Statements
June 30, 2013

Fund Financial Statements

The governmental fund financial statements are reported using the current financial resources measurement 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 Department considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

The proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the department-wide financial statements described above.

In 2013, the Department adopted GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which superseded GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting* and all other pre-November 30, 1989 guidance not issued by the GASB.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

A description of the funds administered by the Department is as follows:

Governmental Funds (Governmental Activities):

- *General Fund* – The General Fund is the general operating fund of the Department. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund presented is a part of the State's General Fund and is limited to only those appropriations and obligations of the Department.
- *Special Revenue Funds* – Special revenue funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.
- *Capital Projects Funds* – Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds) and are included in Other Funds in the fund financial statements.

The Department accounts for governmental fund balances in accordance with GASB Statement No. 54 ("GASB 54"), *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB 54's hierarchical fund balance classification structure is based primarily on the extent to which a government is bound to follow constraints on how resources can be spent. Classifications include:

- *Restricted* – Balances that are restricted for specific purposes by external parties such as creditors, grantors or other governments.

State of Hawaii
Department of Health
Notes to Financial Statements
June 30, 2013

- *Committed* – Balances that can only be used for specific purposes pursuant to constraints imposed by formal action of the State Legislature.
- *Assigned* – Balances that are constrained by management to be used for specific purposes, but are neither restricted nor committed.
- *Unassigned* – Residual balances that are not contained in the other classifications.

When both restricted and unrestricted balances are available for use, it is the Department's policy to use restricted fund balance first, then unrestricted fund balance. Furthermore, committed fund balances are reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted classifications can be used.

Proprietary Funds (Business-Type Activities):

- *Enterprise Funds* – Enterprise funds are used to account for the activities for which the intent of management is to recover, primarily through user charges, the cost of providing goods or services to customers, or where sound financial management dictates that periodic determination of results of operations are appropriate.

Fiduciary Funds:

- *Agency Funds* – Agency funds are used to account for cash collected and disbursed by the Department in a custodial capacity.

Equity in Cash and Cash Equivalents and Investments in State Treasury

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. Effective August 1, 1999, 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.

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 Department. However, as all of the Department's monies are held in the State cash pool, the Department 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's 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/>.

State of Hawaii
Department of Health
Notes to Financial Statements
June 30, 2013

DAGS issued guidance informing State agencies participating in the State Treasury Investment Pool that the sale of its balance in auction rate securities resulted in a gain for the year ended June 30, 2013 and that each participating State agency would be allocated a portion of the gain. The Department's total allocated gain for fiscal 2013 amounted to \$2,058,000.

Due from State Treasury

The State Director of Finance is responsible for the safekeeping of all cash in the State Treasury in accordance with State laws. Currently, separate accounts are not maintained in the State Treasury for the Department's general operating and capital appropriations. Although these appropriations are available to the Department to expend, custody of the funds remains with the State. Unspent general and capital appropriations that continue to be available to the Department for expenditure at the end of the fiscal year are reported as Due from State Treasury in the accompanying fund and department-wide financial statements.

Due from Other State Agencies

Receivables due from other State agencies consist of reimbursements from the Department of Human Services ("DHS") for Medicaid payments that the Department makes to providers of health services. The Department is responsible to pay the State portion of the Medicaid claims, and DHS reimburses the Department for the Federal portion of the claims. The receivable of \$4.1 million is comprised of various Medicaid rehabilitation option claims.

Payments made to providers and received from DHS for the Federal portion of the Medicaid claims are classified as expenditures and transfers in, respectively, for financial statement purposes.

Tobacco Settlement

In November 1998, the State settled its tobacco lawsuit as part of a nationwide settlement involving 46 other states and various tobacco industry defendants. Under the settlement, those tobacco companies that have joined in the Master Settlement Agreement will pay the State approximately \$1.3 billion over a 25-year period. The Department is responsible for administering the Hawaii Tobacco Settlement Special Fund. The Department receives all tobacco settlement monies and then allocates and appropriates 80 percent of the funds to other State agencies and other entities in accordance with Hawaii Revised Statutes ("HRS") 328L-2. The Department receives annual payments on April 15 of each year for tobacco settlements earned for the preceding calendar year.

The Department received approximately \$48,200,000 in tobacco settlement proceeds during the year ended June 30, 2013. In accordance with GASB Technical Bulletin No. 04-01, *Tobacco Settlement Recognition and Financial Reporting Entity Issues*, the Department has recorded a tobacco settlement receivable for \$25,300,000 in the statement of net position representing tobacco settlements earned for the period January 1, 2013 through June 30, 2013.

ARRA Advances

The proprietary funds received American Recovery and Reinvestment Act ("ARRA") stimulus money that was used to provide construction grants with no interest or loan fees and 100 percent principal forgiveness upon completion of approved projects. The proprietary funds are allowed to use a portion of the ARRA funds for specified purposes as set forth in the grant. ARRA funds provided to counties have been classified as "ARRA Advances" on the Statement of Net Position upon disbursement. The ARRA advances will be completely forgiven and expensed once all the conditions and compliance requirements have been satisfied by the counties. If conditions and compliance requirements are not met, the grants will convert to loans, requiring repayment of principal, interest and loan fees.

State of Hawaii
Department of Health
Notes to Financial Statements
June 30, 2013

Loans Receivable

Loans made to counties are funded by federal capitalization grants, State matching funds, repayments and investment interest income. Loan funds are disbursed to local agencies as they expend for the purposes of the loan and request reimbursement from the proprietary funds. Interest is calculated from the date that funds are advanced. After the final disbursement has been made, the payment schedule identified in the loan agreement is adjusted for the actual amounts disbursed and interest accrued during the project period. Beginning with federal fiscal year 2010, the capitalization grants allow for portions of loans to be forgiven upon satisfaction of certain requirements.

Administrative Loan Fees

The Department has implemented an administrative loan fee program to pay for the proprietary fund's administration, including employee salaries and benefits. The proprietary funds apply an administrative fee to all loans as provided for in Chapter 11-65 of the Hawaii Administrative Rules.

Capital Assets

Capital assets, which include buildings, furniture, and equipment, are reported in the applicable governmental or business-type activities in the department-wide financial statements and in the proprietary funds' financial statements. Capital assets are defined by the Department as those assets with estimated useful lives greater than one year and with an acquisition cost greater than:

Land	All capitalized
Land improvements	\$100,000
Building and building improvements	\$100,000
Furniture and equipment	\$5,000

Such assets are recorded at historical cost if purchased or constructed. Donated assets are recorded at estimated fair value at the time received. Depreciation expense is recorded in the department-wide and proprietary funds' financial statements using the straight-line method over the estimated useful lives of the assets. Generally, the useful lives (in years) are as follows:

	Governmental- Type Activities	Business- Type Activities
Land improvements	15	Not applicable
Building and building improvements	30	Not applicable
Furniture and equipment	5–7	5–7

Deferred Income

Deferred income at the fund level and department-wide level arise when the Department receives resources before it has a legal claim to them. In subsequent periods, when the revenue recognition criteria is met, or when the Department has a legal claim to the resources, the liability for deferred income is removed from the statement of net position and balance sheet, and revenue is recognized. Deferred income at June 30, 2013 consisted primarily of Federal grant funds for which all eligibility requirements had not yet been met.

State of Hawaii
Department of Health
Notes to Financial Statements
June 30, 2013

Due to Other State Agencies

Payables to other State agencies consist of reimbursements to DHS for the State portion of the Medicaid claims for the Developmental Disabilities program and funds allocated to other State agencies in accordance with the Hawaii Tobacco Settlement Special Fund. The State portion of the Medicaid claims for the Development Disabilities program is \$1.1 million and the amount allocated to other funds in accordance with the Hawaii Tobacco Settlement Special Fund is \$25.9 million.

Beverage Container Deposits and Container Fees

Deposits of \$0.05 are made by distributors to the deposit beverage container fund for each qualifying container. The deposit beverage container fund maintains all deposits until the redemption centers claim reimbursement for the deposits paid to consumers. The deposit beverage container fund maintains the deposits that are expected to be redeemed.

Amounts paid to consumers are based on containers redeemed or a predetermined weight per type of container redeemed (i.e., aluminum, mixed plastics, etc.). These weights are determined based on the mix of containers redeemed and are reviewed when necessary. Management adjusts the deposit liability balance and unredeemed deposit revenue recognized based on the amount of deposits refunded in the first three months of the subsequent fiscal year related to deposits collected prior to year end. Deposits not refunded within the first three months of the subsequent fiscal year are recognized as revenue for the previous year.

As the redemption rate has been over 70 percent since fiscal year 2008, in accordance with Chapter 342G, Part VIII, HRS, the director of health increased the beverage container fee from \$0.01 to \$0.015 per container, effective September 1, 2012.

According to HRS 342G-104, any funds that accumulate in the Deposit Beverage Container Fund shall be retained by the fund unless determined to be in excess by the Legislature.

Accrued Vacation

Vacation pay is accrued as earned by employees. Vacation pay can accumulate at the rate of one and three-quarters working days for each month of service up to 720 hours at calendar year-end and is convertible to pay upon termination of employment. As accrued vacation does not require the use of current financial resources, it is not reported in the governmental funds balance sheet.

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 State 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 State's Employees' Retirement System ("ERS"). At June 30, 2013, accumulated sick leave was approximately \$68 million.

Intrafund and Interfund Transactions

Significant transfers of financial resources between activities included within the same fund are offset within that fund. Transfers of revenues from funds authorized to receive them to funds authorized to expend them are recorded as operating transfers in the basic financial statements.

State of Hawaii
Department of Health
Notes to Financial Statements
June 30, 2013

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Encumbrances

Encumbrance accounting, under which purchase orders and contractual commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed in the governmental funds. Although appropriations generally lapse at year end, open encumbrances are reported as reservations of fund balances because the commitments will be honored when the goods or services are received. Encumbrances do not constitute expenditures or liabilities. Encumbrances at June 30, 2013 for the Department's governmental funds were approximately:

General	\$ 52,032,000
Tobacco settlement	2,920,000
Deposit beverage container	11,209,000
Other funds	43,374,000
Total	<u>\$ 109,535,000</u>

Use of Restricted and Unrestricted Net Position

When an expense is incurred for which both restricted and unrestricted net position is available, the Department's policy is to apply restricted net position first.

Nonmonetary Transactions

The Department receives noncash awards for one of its federally funded programs. The Department expended approximately \$12,832,000 in vaccines in fiscal year 2013.

Administrative Costs

DAGS assesses the Department's special funds centralized and administrative service fees, which are recorded as direct expenditures in the Department's funds.

Effective for fiscal year 2014, the Deposit Beverage Container Deposit Special Fund is exempted from paying the central service fee assessed by DAGS under Act 228, SLH 2013.

New Accounting Pronouncements Not Yet Effective

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The objective of this Statement is to reclassify assets and liabilities as deferred outflows of resources and deferred inflow of resources for consistency in financial reporting. The requirements of this Statement are effective for reporting periods beginning after December 15, 2012. Management has not yet determined the effect this Statement will have on the Department's financial statements.

In March 2012, GASB issued Statement No. 66, *Technical Corrections*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity. The requirements of this Statement are effective for reporting periods beginning after December 15, 2012. Management has not yet determined the effect this Statement will have on the Department's financial statements.

State of Hawaii
Department of Health
Notes to Financial Statements
June 30, 2013

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. The objective of this Statement is to establish accounting and financial reporting requirements for pensions of governments. The requirements of this Statement are effective for reporting periods beginning after June 15, 2014. Management has not yet determined the effect this Statement will have on the Department's financial statements.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The objective of this Statement is to improve accounting and financial reporting by addressing an issue in Statement No. 68 concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of Statement No. 68 by employers and nonemployer contributing entities. The requirements for this Statement are effective for periods beginning after June 15, 2014. Management has not yet determined the effect this Statement will have on the Department's financial statements.

2. Budgeting and Budgetary Control

The Department follows these procedures in establishing the budgetary data reflected in the basic financial statements:

- *The Budget* – Not less than 20 days before the State Legislature convenes in every odd-numbered year, the Governor submits to the State Legislature, and to each member thereof, a budget which contains the program and budget recommendation of the Governor for the succeeding biennium. The budget in general contains: the State program structure; statements of statewide objectives; financial requirements for the next biennium to carry out the recommended programs; a summary of State receipts and revenues in the last completed fiscal year; a revised estimate for the fiscal year in progress; and an estimate for the succeeding biennium.
- *Legislative Review* – The State Legislature considers the Governor's proposed program and financial plan and budget, evaluates alternatives to the Governor's recommendations, adopts programs, and determines the State budget. It may, from time to time, request the Department of Budget and Finance and any agency to conduct such analysis of programs and finances as will assist in determining the State's program and financial plan and budget.
- *Program Execution* – Except as limited by policy decisions of the Governor, appropriations by the State Legislature, and other provisions of law, the agencies responsible for the programs administer the programs and are responsible for their proper management. The appropriations by the State Legislature for a biennium are allocated between the two fiscal years of the biennium in the manner provided in the budget or appropriations act and as further prescribed by the Director of Finance. No appropriation transfers or changes between programs or agencies can be made without legislative authorization. Authorized transfers or changes, when made, should be reported to the State Legislature.

Budgetary control is maintained at the appropriation line item level established in the appropriation acts.

Budgets are adopted for the Department's funds and are prepared on the basis of cash receipts and amounts disbursed, which is a basis of accounting other than GAAP.

State of Hawaii
Department of Health
Notes to Financial Statements
June 30, 2013

The major differences between the budgetary and GAAP basis are that: (1) the budget is prepared on the basis of cash receipts and amounts disbursed; and (2) encumbrances are recorded as the equivalent of expenditures under the budgetary basis.

Since budgetary basis differs from GAAP, budget and actual amounts in the budgetary comparison statements are presented on the budgetary basis. A reconciliation of revenues in excess of (less than) expenditures on a budgetary basis at June 30, 2013, to revenues in excess of (less than) expenditures presented in conformity with GAAP follows:

	General Fund	Tobacco Settlement Fund	Deposit Beverage Container Fund
Excess of revenues over expenditures (expenditures over revenues) – actual on a budgetary basis	\$ -	\$ (3,242,255)	\$ (10,843,532)
Reserve for encumbrances at year end	52,032,007	2,920,499	11,209,083
Expenditures for liquidation of prior year's encumbrances	(53,591,580)	(4,180,459)	(9,068,068)
Accruals and other adjustments	6,611,334	30,330,775	13,053,064
Excess of revenues over expenditures – GAAP basis	<u>\$ 5,051,761</u>	<u>\$ 25,828,560</u>	<u>\$ 4,350,547</u>

3. Loans Receivable

At June 30, 2013, the proprietary funds loans receivable consisted of loans to county governmental units for the water pollution control and drinking water treatment programs. The loans require annual, semi-annual or quarterly payments, including interest at 0.00 percent to 3.02 percent, commencing not later than one year after project completion, notice to proceed, or loan agreement date. Final payment is due not later than twenty years after project completion. In fiscal year 2013, \$2,003,000 and \$6,211,000 in loans and ARRA advances, respectively, were forgiven. All loans and advances forgiven were in accordance with required conditions. Accrued interest receivable on the loans amounted to approximately \$567,000 at June 30, 2013.

The following is a schedule of principal payments due on loans for projects completed or in progress as of June 30, 2013:

Year ending June 30,	
2014	\$ 30,563,507
2015	27,236,243
2016	27,199,486
2017	26,655,923
2018	26,426,367
Thereafter	<u>228,750,709</u>
	<u>\$ 366,832,235</u>

State of Hawaii
Department of Health
Notes to Financial Statements
June 30, 2013

4. Capital Assets

Capital asset activity for the year ended June 30, 2013 was as follows:

	Beginning Balance	Additions	Dispositions	Ending Balance
Governmental activities				
Capital assets, not being depreciated				
Land	\$ 1,018,080	\$ -	\$ -	\$ 1,018,080
Total capital assets not being depreciated	1,018,080	-	-	1,018,080
Capital assets, being depreciated				
Land improvements	1,862,927	1,247,654	-	3,110,581
Building and building improvements	144,512,744	2,010,907	-	146,523,651
Furniture and equipment	22,895,884	594,410	(736,715)	22,753,579
Total capital assets being depreciated	169,271,555	3,852,971	(736,715)	172,387,811
Less: Accumulated depreciation				
Land improvements	1,862,927	124,766	-	1,987,693
Building and building improvements	93,106,127	6,364,806	-	99,470,933
Furniture and equipment	17,271,636	1,310,845	(464,451)	18,118,030
Total accumulated depreciation	112,240,690	7,800,417	(464,451)	119,576,656
Governmental activities capital assets, net	\$ 58,048,945	\$ (3,947,446)	\$ (272,264)	\$ 53,829,235
Business-type activities				
Capital assets being depreciated				
Furniture and equipment	\$ 1,315,199	\$ -	\$ -	\$ 1,315,199
Total capital assets being depreciated	1,315,199	-	-	1,315,199
Less: Accumulated depreciation for equipment	1,009,661	93,873	-	1,103,534
Total accumulated depreciation	1,009,661	93,873	-	1,103,534
Business-type activities capital assets, net	\$ 305,538	\$ (93,873)	\$ -	\$ 211,665

State of Hawaii
Department of Health
Notes to Financial Statements
June 30, 2013

Current period depreciation expense was charged to functions as follows:

Governmental activities	
General administration	\$ 1,612,517
Environmental health	943,337
Behavioral health services	1,864,415
Health resources	3,380,148
Total depreciation expense – governmental activities	<u>\$ 7,800,417</u>
Business-type activities	
Environmental health	<u>\$ 93,873</u>
Total depreciation expense – business-type activities	<u>\$ 93,873</u>

5. Accrued Vacation

The changes to the accrued vacation liability during 2013 were as follows:

	Governmental Activities	Business-Type Activities
Balance at July 1, 2012	\$ 27,397,247	\$ 419,791
Increase	11,200,306	109,393
Decrease	<u>(10,344,053)</u>	<u>(99,725)</u>
Balance at June 30, 2013	28,253,500	429,459
Less: Current portion	<u>7,870,939</u>	<u>84,014</u>
Noncurrent portion	<u>\$ 20,382,561</u>	<u>\$ 345,445</u>

6. Beverage Container Deposits

The changes to the beverage container deposit liability during 2013 were as follows:

Balance at July 1, 2012	\$ 3,228,765
Increase: Deposits received from distributor	45,588,423
Decrease: Payments made to redemption centers, net of refunds	(38,280,075)
Decrease: Unredeemed deposits recognized as revenue	<u>(8,605,492)</u>
Balance at June 30, 2013	<u>\$ 1,931,621</u>

7. Non-Imposed Employee Fringe Benefits

Non-imposed employee fringe benefits related to general and State special fund salaries are funded by the State. These costs, totaling approximately \$44.8 million for the fiscal year ended June 30, 2013, have been reported as revenues and expenditures of the Department's general and State special revenue funds.

Payroll fringe benefit costs related to Federally-funded salaries are not funded by the State and are recorded as expenditures in the Federal special revenue funds.

State of Hawaii
Department of Health
Notes to Financial Statements
June 30, 2013

8. Employee Benefit Plans

Substantially all employees of the Department participate in the State's various employee benefit plans, including the ERS, post-employment healthcare and life insurance plan, and a deferred compensation plan. For more information on the State's benefit plans, refer to the State ERS' CAFR. The State's CAFR can be found on the DAGS website. The ERS CAFR can be found at the ERS website: <https://ers.ehawaii.gov/resources/financials>.

Employees' Retirement System

The ERS is a cost-sharing, multiple-employer public employee retirement plan. The ERS provides retirement benefits as well as death and disability benefits. All contributions, benefits and eligibility requirements are established by Chapter 88, HRS, and can be amended by legislative action. Contributions made to the plan were \$21.4 million, \$21.1 million, and \$20.7 million for the fiscal years ended June 30, 2013, 2012, and 2011, respectively.

Post-Employment Healthcare and Life Insurance Benefits

The State contributes to the Hawaii Employer-Union Health Benefits Trust Fund ("EUTF"), an agent multiple-employer defined benefit plan. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees, and their dependents. The eligibility requirements for retiree health benefits are based on date of hire.

State Policy

The actuarial valuation of the EUTF does not provide other postemployment benefits ("OPEB") information by department or agency. Accordingly, the State's policy on the accounting and reporting for OPEB is to 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 proportionate share of contributions made by each component unit and proprietary fund for retiree health benefits.

Annual OPEB Cost

The components of the allocated annual OPEB cost (annual required contribution, interest on net OPEB obligation, and adjustment to annual required contribution) are insignificant to the Department's two proprietary funds. The following table shows the allocated annual OPEB cost that has been allocated to the two proprietary funds of the Department for the year ended June 30, 2013:

	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Loan Fund	Total
Annual OPEB cost	\$ 385,409	\$ 223,387	\$ 608,796
Less: Contributions made	<u>(105,370)</u>	<u>(61,074)</u>	<u>(166,444)</u>
Increase in net OPEB obligation	280,039	162,313	442,352
Net OPEB obligation, beginning of year	<u>843,601</u>	<u>327,501</u>	<u>1,171,102</u>
Net OPEB obligation, end of year	<u>\$ 1,123,640</u>	<u>\$ 489,814</u>	<u>\$ 1,613,454</u>

State of Hawaii
Department of Health
Notes to Financial Statements
June 30, 2013

Amount of Contributions Made

Contributions are financed on a pay-as-you-go basis and the Department's contributions for the years ended June 30, 2013, 2012, and 2011 were approximately \$3.2 million, \$2.5 million, and \$2.2 million.

Required Supplementary Information and Disclosures

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

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 an unforeseeable emergency.

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 has the duty of due care that would be required of an ordinary prudent investor.

9. Commitments and Contingencies

Operating Leases

The Department leases various office facilities and equipment through fiscal year 2017 on a long-term basis as provided for in the lease agreements. The following is a schedule of minimum future rent payments on noncancelable operating leases at June 30, 2013:

Year ending June 30,	
2014	\$ 459,000
2015	396,000
2016	272,000
2017	127,000
	<u>\$ 1,254,000</u>

Rental expenditures for the fiscal year ended June 30, 2013 approximated \$2,300,000.

Insurance Coverage

The State maintains certain insurance coverage to satisfy bond indenture agreements as well as for other purposes, but is substantially self-insured for all other perils including workers' compensation. 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. The State retains various risks and insures certain excess layers with commercial insurance companies. At June 30, 2013, the State recorded estimated losses for workers' compensation, automobile, and general liability claims as long-term liabilities 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 Department's portion of the State's workers' compensation expense for the year ended June 30, 2013 was approximately \$243,000.

State of Hawaii
Department of Health
Notes to Financial Statements
June 30, 2013

Litigation

The Department is a party to various legal proceedings, the outcome of which, in the opinion of management, will not have a material adverse effect on the Department's financial position. Losses, if any, are either covered by insurance or will be paid from legislative appropriations of the State's General Fund.

Ceded Lands

The Office of Hawaiian Affairs ("OHA") and the State are involved in litigation regarding the State's alleged failure to properly account for and pay to OHA monies due to OHA under the provisions of the Hawaii State Constitution and Chapter 10 of the Hawaii Revised Statutes for use by the State of certain ceded lands. The ultimate outcome of this matter is still unknown. Full discussion of this matter and other legal matters between OHA and the State are disclosed in the State's CAFR.

**Schedule of
Expenditures of Federal Awards**

State of Hawaii
Department of Health
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2013

Federal Grantor/Pass-Through Grantor/Program Title	Project Number	CFDA Contract, Award or Assistance ID Number	Federal Expenditures	Amount Provided to Subrecipient
U.S. Department of Health and Human Services				
Direct Programs				
TB Epidemiological Studies Consortium	626	200-2011-41277	\$ 169,083	\$ -
Special Programs for Aging – Title VII Chapter 3	468	93.041	4,561	-
Special Programs for Aging – Title VII Chapter 2	468	93.042	83,718	-
Special Programs for Aging – Title III Part D	401	93.043	49,585	49,585
Special Programs for Aging – Title III Part B – Grants for Supportive Services and Senior Centers	401	93.044	1,246,274	1,237,440
Special Programs for Aging – Title III Part C – Nutrition Services	401	93.045	1,663,139	1,178,871
Nutrition Services Incentive Program	406	93.053	272,779	272,779
Subtotal Aging Cluster			3,182,192 *	2,689,090
Special Programs for Aging – Title IV and Title II – Discretionary Projects	various	93.048	1,090,406	668,605
National Family Caregiver Support, Title III, Part E	401	93.052	420,192	420,192
Public Health Emergency Preparedness	1297	93.069	5,053,893 *	-
Environmental Public Health and Emergency Response	444	93.070	337,030	337,030
Hawaii's Lifespan Respite Care Program	627	93.072	44,484	-
Emergency System for Advance Registration of Volunteer Health Professionals	588	93.089	101,292	-
Personal Responsibility Education Program Grant	613	93.092	216,476	169,775
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances	229, 589, 632	93.104	2,433,904	-
Maternal and Child Health Federal Consolidated Programs	257, 307, 466	93.110	717,124	478,168
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	247	93.116	648,442	-
Emergency Medical Services for Children	388	93.127	105,493	-
Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	298	93.130	171,093	-
Injury Prevention and Control Research and State and Community Based Programs	278, 343	93.136	271,641	54,530
Projects for Assistance in Transition from Homelessness	23208, 24208, 25208	93.150	267,345	264,888
Hansen's Disease National Ambulatory Care Program	264	93.215	891,534	-
Family Planning – Services	239	93.217	1,992,560	1,446,268
Abstinence Education Program	273	93.235	83,305	80,631
State Rural Hospital Flexibility Program	415	93.241	505,609	-
Substance Abuse and Mental Health Services – Projects of Regional and National Significance	various	93.243	3,260,960 *	2,209,797
Universal Newborn Hearing Screening	416	93.251	230,823	-
Immunization Grants	457	93.268	15,544,905 *	-
Adult Viral Hepatitis Prevention and Control	397	93.270	80,414	-
Substance Abuse and Mental Health Services – Access to Recovery Centers for Disease Control and Prevention – Investigations and Technical Assistance	396	93.275	2,734,905	2,377,546
State Partnership Grant Program to Improve Minority Health	various	93.283	2,884,136	2,451,940
Small Rural Hospital Improvement Grant Program	611	93.296	52,573	30,801
Food Safety and Security Monitoring Project	454	93.301	78,514	-
Affordable Care Act Maternal, Infant, and Early Childhood Home Visiting Program	580	93.448	261,014	-
Strengthening Public Health Infrastructure for Improved Health Outcomes	602, 629	93.505	1,411,192	977,139
Affordable Care Act – Medicare Improvements for Patients and Providers	285, 615	93.507	877,192	-
Centers for Disease Control and Prevention – Affordable Care Act – Communities Putting Prevention to Work	637	93.518	4,339	4,339
ELC PPACA – Building & Strengthening Capacity	630	93.520	274	274
Hawaii Immunization Registry Electronic Medical Record Interoperability	607	93.521	534,535	-
Collaborative Chronic Disease Healthy Promotion & Surveillance	624	93.539	180,145	-
Prog CD Prev & Health Promotion	631	93.544	47,750	46,210
Community-Based Child Abuse Prevention Grants	270	93.590	1,017,993	841,262
Development Disabilities Basic Support and Advocacy Grants	240	93.630	407,612	-
ARRA – Prevention and Wellness – State, Territories and Pacific Islands	593, 594	93.723	131,938	131,938
ARRA – Prevention and Wellness – Communities Putting Prevention to Work: Funding Opportunities Announcement	595	93.724	518,487	211,950
ARRA – Communities Putting Prevention to Work: Chronic Disease Self-Management Program	596	93.725	13,400	13,400
CDMCB – Breast and Cervical Cancer Control	640	93.744	10,132	-

* Denotes Major Federal Program

State of Hawaii
Department of Health
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2013

Federal Grantor/Pass-Through Grantor/Program Title	Project Number	CFDA Contract, Award or Assistance ID Number	Federal Expenditures	Amount Provided to Subrecipient
State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	221, 380, 387	93.777	1,623,109	-
Centers for Medicare and Medicaid Services Research, Demonstrations and Evaluations	403, 590, 638	93.779	611,122	374,326
National Bioterrorism Hospital Preparedness Program	435	93.889	1,607,784 *	1,425,611
Grants to States for Operation of Offices of Rural Health	299	93.913	184,357	-
HIV Care Formula Grants	293, 603, 608	93.917	2,380,047	1,436,470
Cooperative Agreements for State-Based Comprehensive Breast and Cervical Early Detection Programs	448	93.919	1,134,301	1,134,301
Healthy Start Initiative	286	93.926	810,799	581,334
Special Projects of National Significance	635	93.928	100,000	100,000
HIV Prevention Activities – Health Department Based	266	93.940	1,982,414	790,367
HIV / AIDS Surveillance	272	93.944	235,388	-
Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	319	93.946	142,280	-
Block Grants for Community Mental Health Services	various	93.958	2,337,029	1,073,807
Substance Abuse Prevention and Treatment Block Grants	30204, 31204	93.959	6,512,102	6,144,034
Preventive Health Services – Sexually Transmitted Diseases Control Grants	268	93.977	322,179	-
Preventive Health and Health Services Block Grant	various	93.991	635,454	-
Maternal and Child Health Services Block Grant	30201, 31201, 32201	93.994	2,123,039	22,701
Hawaii Tobacco State Enforcement Contract	633	93.HHSF223201110148C	63,234	1,950
Subtotal Direct Programs			71,928,833	29,040,259
Pass-through from the State Department of Human Services				
Child Abuse and Neglect State Grants	0FHS02	93.669	74,000	-
Subtotal Pass-through Programs			74,000	-
Total Department of Health and Human Services			72,002,833	29,040,259
U.S. Department of Agriculture				
Direct Program				
Wildlife Services	392	10.028	8,455	-
Food Safety Cooperative Agreements	203, 580	10.479	134,478	-
Special Supplemental Nutrition Program for Women, Infants and Children	275, 295, 623	10.557	35,222,393 *	3,478,339
ARRA – WIC Grants to States	587	10.578	113,462	-
Subtotal Direct Programs			35,478,788	3,478,339
Pass-through from the State Department of Human Services				
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	0TSP01	10.561	428,646	-
Subtotal Pass-through Programs			428,646	-
Total Department of Agriculture			35,907,434	3,478,339
Environmental Protection Agency				
Direct Program				
Air Pollution Control Program Support	233	66.001	672,658	-
Surveys, Studies, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	294	66.034	136,217	-
State Clean Diesel Grant Program	328	66.040	636,026	206,129
Water Pollution Control State, Interstate, and Tribal Program Support	231, 237, 601	66.419	2,483,399	142,821
State Public Water System Supervision	232	66.432	550,305	-
Water Quality Management Program	14284, 15284, 16284	66.454	104,678	-
Capitalization Grants for Clean Water State Revolving Funds	various	66.458	16,376,424	16,045,715
ARRA – Capitalization Grants for Clean Water State Revolving Funds	483	66.458	2,581,472	2,581,472
Subtotal Capitalization Grants for Clean Water State Revolving Funds			18,957,896 *	18,627,187
Nonpoint Source Implementation Grants	290	66.460	1,197,539	707,124
Capitalization Grants for Drinking Water State Revolving Funds	various	66.468	4,389,880	2,169,210
ARRA – Capitalization Grants for Drinking Water State Revolving Funds	482	66.468	367,813	367,813
Subtotal Capitalization Grants for Drinking Water State Revolving Funds			4,757,693 *	2,537,023

* Denotes Major Federal Program

State of Hawaii
Department of Health
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2013

Federal Grantor/Pass-Through Grantor/Program Title	Project Number	CFDA Contract, Award or Assistance ID Number	Federal Expenditures	Amount Provided to Subrecipient
Beach Monitoring and Notification Program	8291	66.472	46,189	-
Environmental Information Exchange Grant Program	395 and 570	66.608	298,897	-
Toxic Substances Compliance Monitoring Cooperative Agreements	243	66.701	156,046	-
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	330	66.707	204,228	-
Capacity Building for States	373	66.709	10,579	-
Hazardous Waste Management State Program Support	230	66.801	500,457	-
Superfund State Site Specific Cooperative Agreements	394	66.802	342,702	-
State Underground Storage Tanks Program	339	66.804	222,337	-
Leaking Underground Storage Tank Trust Fund Corrective Action Program	258	66.805	482,682	-
ARRA – Leaking Underground Storage Tank Trust Fund Corrective Action Program	487	66.805	110,670	-
State and Tribal Response Program Grants	360	66.817	787,994	-
Total Environmental Protection Agency			<u>32,659,192</u>	<u>22,220,284</u>
U.S. Department of Education				
Direct Program				
Special Education – Grants for Infants and Families	213	84.181	<u>2,013,912</u>	<u>405,438</u>
Total Department of Education			<u>2,013,912</u>	<u>405,438</u>
U.S. Department of Defense				
Direct Program				
FEMA – Reimbursement	393	12.000	11,328	-
State Memorandum of Agreement Program for the Reimbursement of Technical Services	245	12.113	<u>287,527</u>	<u>-</u>
Total Department of Defense			<u>298,855</u>	<u>-</u>
U.S. Department of Justice				
Direct Program				
Enforcing Underage Drinking Laws Program	458	16.727	255,771	55,992
Pass-through from the State Department of the Attorney General Evidence-Based Forensic Student Internship	609	16.803	<u>59,230</u>	<u>-</u>
Total Department of Justice			<u>315,001</u>	<u>55,992</u>
U.S. Department of Transportation				
Pass-through from the State Department of Transportation State and Community Highway Safety	581/00	20.600	<u>112,858</u>	<u>-</u>
Total Department of Homeland Security			<u>112,858</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 143,310,085</u>	<u>\$ 55,200,312</u>

* Denotes Major Federal Program

State of Hawaii
Department of Health
Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2013

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the State of Hawaii, Department of Health (the "Department"), and is presented on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. Loans Outstanding

The Department had the following loan balances outstanding at June 30, 2013. Loans made during the year are included in the federal expenditures presented in the schedule of expenditures of federal awards.

Program Title	Federal CFDA Number	Amount Outstanding
Capitalization Grants for Clean Water State Revolving Funds	66.458	\$ 18,318,544
Capitalization Grants for Drinking Water State Revolving Funds	66.468	11,483,781

3. Noncash Awards

The Department also receives noncash awards for the Immunization Cluster. The Department expended approximately \$12,832,000 in vaccines for the Immunization Cluster for the fiscal year ended June 30, 2013.

PART II

Government Auditing Standards

**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, each major fund, and the aggregate remaining fund information of the State of Hawaii, Department of Health (the "Department") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements and have issued our report thereon dated March 13, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Department'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 Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs, as Finding Nos. 2013-001 through 2013-002 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department'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*.

We noted certain matters that we will report to the Auditor and management of the Department in a separate letter dated March 13, 2014.

Department's Response to Findings

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

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
March 13, 2014

PART III
OMB Circular A-133

**Report of Independent Auditors on Compliance for Each Major Program
and on Internal Control Over Compliance Required by OMB Circular A-133**

The Auditor
State of Hawaii

Report on Compliance for Each Major Federal Program

We have audited the State of Hawaii, Department of Health's (the "Department") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Department's major federal programs for the year ended June 30, 2013. The Department's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Department'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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 Department'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 each major federal program. However, our audit does not provide a legal determination of the Department's compliance.

Basis for Qualified Opinions on Major Federal Programs

As described in Finding No. 2013-003 in the accompanying schedule of findings and questioned costs, the Department did not comply with requirements regarding:

Finding #	CFDA #	Program (or Cluster) Name	Compliance Requirement
2013-003	93.044 93.045 93.053	Aging Cluster	Cash Management
2013-003	93.069	Public Health Emergency Preparedness	Cash Management
2013-003	93.243	Substance Abuse and Mental Health Services – Projects of Regional and National Significance	Cash Management
2013-003	93.268	Immunization Grants	Cash Management
2013-003	93.889	National Bioterrorism Hospital Preparedness Program	Cash Management

Compliance with such requirements is necessary, in our opinion, for the Department to comply with the requirements applicable to those programs.

Qualified Opinions on Major Programs

In our opinion, except for the noncompliance described in the Basis for Qualified Opinions on Major Federal Programs paragraph, the Department 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, 2013.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the Department 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, 2013.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Finding Nos. 2013-004 through 2013-008. Our opinion on each major federal program is not modified with respect to these matters.

The Department's responses to the noncompliance findings identified in our audit are described in the accompanying Corrective Action Plan. The Department's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on them.

Report on Internal Control Over Compliance

Management of the Department 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 Control'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 OMB Circular A-133, 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 Department'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 were not 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 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 Nos. 2013-003 and 2013-004 to be material weaknesses.

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 deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding No. 2013-005 to be a significant deficiency.

The Department's responses to the internal control over compliance findings identified in our audit are described in the accompanying Corrective Action Plan. The Department's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Accuity LLP

Honolulu, Hawaii
March 13, 2014

PART IV

Schedule of Findings and Questioned Costs

State of Hawaii
Department of Health
Schedule of Findings and Questioned Costs
Year Ended June 30, 2013

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued	Unmodified
Internal control over financial reporting	
Material weakness identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs	
Material weakness identified?	Yes
Significant deficiency identified that are not considered to be material weaknesses?	Yes
Type of auditors' report issued on compliance for major programs	Qualified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	Yes

Identification of major programs

CFDA Number	Name of Federal Program or Cluster
	U.S. Department of Health & Human Services
	Aging Cluster
93.044	Special Programs for Aging – Title III Part B – Grants for Supportive Services and Senior Centers
93.045	Special Programs for Aging – Title III Part C – Nutrition Services
93.053	Nutrition Services Incentive Program
93.069	Public Health Emergency Preparedness
93.243	Substance Abuse and Mental Health Services – Projects of Regional and National Significance
93.268	Immunization Grants
93.889	National Bioterrorism Hospital Preparedness Program
	U.S. Department of Agriculture
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
	U.S. Environmental Protection Agency
66.458	Capitalization Grants for Clean Water State Revolving Funds
66.458	ARRA – Capitalization Grants for Clean Water State Revolving Funds
66.468	Capitalization Grants for Drinking Water State Revolving Funds
66.468	ARRA – Capitalization Grants for Drinking Water State Revolving Funds

Dollar threshold used to distinguish between type A and type B programs	\$3,000,000
Auditee qualified as low-risk auditee?	No

State of Hawaii
Department of Health
Schedule of Findings and Questioned Costs
Year Ended June 30, 2013

Section II – Financial Statement Findings

		Questioned Cost
Finding No. 2013-001:	Department of Human Services Transactions (Significant Deficiency)	\$ _____
Federal Agency:	Finding is not specific to a Federal Agency.	
CFDA Number and Title:	Finding is not specific to a Federal Agency.	
Award Number and Award Year:	Not applicable	Not applicable

Finding and Cause and Effect

The Department's Adult Mental Health Division ("AMHD") continues to work with the State of Hawaii, Department of Human Services ("DHS") to accurately and timely determine the settlement of Medicaid-related transactions for financial reporting purposes, which could lead to a material misstatement in the Department's financial statements. AMHD's Resource Management and Development Office implemented a process that involves interfacing with AMHD's Management Information Systems staff for an improved and more accurate Medicaid Rehabilitation Option claims administration process. However, in fiscal year 2013, there were technical problems with the interface resulting in billing delays for several months, which also resulted in delays in reconciliations performed by DHS. As the technical issues were resolved, AMHD is working to become current on its submissions to DHS in fiscal year 2014.

Criteria

In accordance with GASB 34, paragraph 12e, the Department is required to:

"Measure and report all assets (both financial and capital), liabilities, revenues, expenses, gains, and losses using the economic resources measurement focus and accrual basis of accounting."

In order to report on the accrual basis of accounting, the Department needs to assess all amounts due to and from other State Agencies for services that were provided throughout the year.

In addition, the Department's management makes the following representation to us before we complete our audit of the financial statements:

"We understand that as part of your audit, you prepared the adjusting journal entries necessary to convert our cash basis records to the accrual basis of accounting and acknowledge that we have reviewed and approved those entries and accepted responsibility for them."

Recommendation

The Department should continue to work on becoming current on billings to DHS. It should also work with DHS to ensure that DHS completes reconciliations of Medicaid payments and communicates over and underpayments in a timely manner.

State of Hawaii
Department of Health
Schedule of Findings and Questioned Costs
Year Ended June 30, 2013

		Questioned Cost
Finding No. 2013-002:	Reliance on Third Party Certifications (Significant Deficiency)	\$ _____
Federal Agency:	Finding is not specific to a Federal Agency.	
CFDA Number and Title:	Finding is not specific to a Federal Agency.	
Award Number and Award Year:	Not applicable	Not applicable

Finding and Cause and Effect

The Deposit Beverage Container Program (the "Program") receives beverage container deposits and container fees from distributors and refunds deposits and pays handling fees to redemption centers based on certified information. The Program relies on certifications from distributors to support deposits and container fees received. The Program also relies on certifications from redemption centers to support deposit refunds and handling fees paid. Overreliance on the self-reporting by distributors and redemption centers may result in underpayments on deposits and the related container fees received by the Department to administer the program, overpayments of deposit refunds and handling fees to redemption centers, and an overstated redemption rate. An overstated redemption rate could result in a material misstatement in the Department's financial statements, as well as higher container fees for consumers to support the program.

The Program could mitigate the risk of fraud (underpayments by distributors and overpayments to redemption centers) by implementing a systematic process for monitoring the activities of and reports submitted by distributors and redemption centers. However, due to insufficient staff positions and turnover, management has been unable to establish a systematic monitoring process.

Criteria

Section 342G-105, Hawaii Revised Statutes ("HRS"), states that payment of the deposit beverage container fee and deposits shall be made monthly, based on inventory reports of the deposit beverage distributors. All deposit beverage distributors shall submit to the Department documentation in sufficient detail that identifies the net number of deposit beverage containers sold, donated, or transferred, by container size and type.

In addition, Section 342G-110, HRS, specifies that the deposit on each filled deposit beverage container shall be paid by the beverage distributor, who manufactures or imports beverages in deposit beverage containers. Beverage distributors shall also pay a deposit beverage container fee and register with the State.

Section 342G-119, HRS, specifies that the Department shall pay certified redemption centers handling fees and deposit refunds based on collection reports submitted by the redemption centers. The redemption reports include the number or weight of deposit beverage containers of each material type accepted at the redemption center for the reporting period; the amount of refunds paid out by material type; the number or weight of deposit beverage containers of each material type transported out of state or to a permitted recycling facility; and copies of out-of-state transport and weight receipts or acceptance receipts from permitted recycling facilities. Additionally, section 11-282-47, Hawaii Administrative Rules ("HAR"), states that the Department shall pay certified redemption centers handling fees and refund values based on reports submitted by the redemption centers to the Department.

State of Hawaii
Department of Health
Schedule of Findings and Questioned Costs
Year Ended June 30, 2013

Section 342G-103, HRS, requires all beverage distributors operating within the State to register with the Department and maintain records reflecting the manufacture of their beverages in deposit beverage containers as well as the importation and exportation of deposit beverage containers. The records shall be made available, upon request, for inspection by the Department.

Similarly Section 342 G-121, HRS, requires distributors and redemption centers to make their records available upon request by the Department, a duly authorized agent of the Department, or the Office of the Auditor.

Recommendation

We recommend that the Program implement a systematic process and direct a Department personnel to oversee distributors and redemption centers, including conducting regular audits of reports submitted and payments made by distributors and reports submitted for deposit refund and handling fee requests from redemption centers.

State of Hawaii
Department of Health
Administrative Services Office
Schedule of Findings and Questioned Costs
Year Ended June 30, 2013

Section III – Federal Award Findings and Questioned Costs

		Questioned Cost
Finding No. 2013-003:	Cash Management (Material Weakness)	\$ _____ –
Federal Agency:	Department of Health and Human Services (“DHHS”)	
CFDA Number and Title:	Aging Cluster 93.044 – Special Programs for Aging – Title III Part B – Grants for Supportive Services and Senior Centers 93.045 – Special Programs for Aging – Title III Part C – Nutrition Services Incentive Program 93.053 – Nutrition Services Incentive Program 93.069 – Public Health Emergency Preparedness (“PHEP”) 93.889 – National Bioterrorism Hospital Preparedness Program (“HPP”) 93.243 – Substance Abuse and Mental Health Services – Projects of Regional and National Significance 93.268 – Immunization Grants	
Award Number and Award Year:	13AAHIT3SP 10/01/2012 – 09/30/2013 12AAHIT3SP 10/01/2011 – 09/30/2012 13AAHINSIP 10/01/2012 – 09/30/2013 12AAHINSIP 10/01/2011 – 09/30/2012 1U90TP000513-01 07/01/2012 – 06/30/2013 2U90TP916969-11 08/10/2011 – 08/09/2012 6 U3REP090225-03 07/01/2011 – 06/30/2012 5U79SP013944-05 09/30/2010 – 09/29/2012 5U79SM057457-05 09/30/2010 – 09/29/2012 5H23IP922518-10 01/01/2012 – 12/31/2012 1H23IP000721-01 01/01/2013 – 12/31/2013	

State of Hawaii
Department of Health
Administrative Services Office
Schedule of Findings and Questioned Costs
Year Ended June 30, 2013

Finding and Cause and Effect

During our testing of the Department's cash management procedures, we could not verify whether the State of Hawaii, Department of Accounting and General Services ("DAGS") disbursed funds from federal sources as close as administratively feasible to the Department's disbursements for the other federal award programs identified above after the Department drew down the funds, in accordance with the Cash Management Improvement Act ("CMIA") Regulations & Guidance 31 CFR 205. The delays were caused by the State's deposit and payment process that requires all State departments to process deposits through the Department of Budget and Finance ("B&F") and payments through DAGS resulting in processing delays.

The Department draws down federal funds that it estimates will be needed based on the vouchers processed daily. However, since deposits must be posted prior to the processing of payments or disbursing of the funds, it is difficult for the Department to disburse federal funds in accordance with CMIA requirements.

Noncompliance with federal regulations could result in a loss of funding that may jeopardize the operations of the Department's federally funded programs. In addition, those programs ordinarily subject to 31 CFR 205, Subpart B may be required to follow the more restrictive requirements of 31 CFR 205, Subpart A.

Criteria

The federal award programs noted above are not subject to the Treasury-State Agreement and, as such, are subject to 31 CFR 205, Subpart B, which states:

"The timing and amount of funds transfers must be as close as is administratively feasible to a State's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs. States should exercise sound cash management in funds transfers to subgrantees in accordance with OMB Circular A-102 . . ."

Recommendation

We recommend that the Department work with DAGS and B&F to ensure timely disbursement of federal funds in accordance with the CMIA.

**State of Hawaii
Department of Health
Substance Abuse and Mental Health Services –
Projects of Regional and National Significance
Schedule of Findings and Questioned Costs
Year Ended June 30, 2013**

		Questioned Cost
Finding No. 2013-004:	Period of Availability (Material Weakness)	\$ 282,209
Federal Agency:	DHHS	
CFDA Number and Title:	93.243 – Substance Abuse and Mental Health Services – Projects of Regional and National Significance	
Award Number and Award Year:	5U79SP013944-05 09/30/2010 – 09/29/2012	

Finding and Cause and Effect

During our testing of the period of availability compliance requirement for the Hawaii Strategic Prevention Framework State Incentive Grant (“SPF SIG”) and Mental Health Transformation State Incentive Grant (“MHT SIG”) programs under CFDA 93.243, we noted that there were procedures in place to ensure that obligations were incurred prior to the end of the project period. However, we noted that the programs did not have procedures in place to ensure that all obligations incurred were liquidated within 90 days of the end of the project period, the disbursement deadline stated in the award document. This resulted in the following instances of noncompliance with period of availability requirements and questioned costs totaling approximately \$282,000:

- For the 2 out of 19 disbursements tested in the SPF SIG program, we noted that payments of \$108,553 and \$160,180 were disbursed more than 90 days after the end of the project period.
- For the 1 out of the 21 disbursements tested in the MHT SIG program, we noted that a payment of \$13,476 was disbursed more than 90 days after the end of the project period.

The delay in disbursement was largely due to a subrecipient submitting late requests for payments due to disputed charges with its vendors.

Noncompliance with federal requirements could result in the Department being required to reimburse the awarding agency for payments after the period of availability, increased oversight, and/or reduction in future federal awards. We understand AMHD, which administered the MHT SIG program, will record a journal voucher to reimburse the federal government by changing the source of funding to state general funds.

Criteria

In accordance with 45 CFR 92.23, we noted that the program is required to liquidate all obligations incurred under the award not later than 90 days after the end of the funding period.

**State of Hawaii
Department of Health
Substance Abuse and Mental Health Services –
Projects of Regional and National Significance
Schedule of Findings and Questioned Costs
Year Ended June 30, 2013**

Recommendation

We recommend that the Department implement policies and procedures in order to comply with federal regulations, including ensuring that payments are disbursed within 90 days of the end of the funding period.

State of Hawaii
Department of Health
National Bioterrorism Hospital Preparedness Program
Capitalization Grants for Clean Water State Revolving Funds
Capitalization Grants for Drinking Water State Revolving Funds
Schedule of Findings and Questioned Costs
Year Ended June 30, 2013

		Questioned Cost
Finding No. 2013-005:	Reporting (Significant Deficiency)	\$ _____ -
Federal Agency:	DHHS Environmental Protection Agency ("EPA")	
CFDA Number and Title:	93.889 – HPP 66.458 – Capitalization Grants for Clean Water State Revolving Funds ("CWSRF") 66.468 – Capitalization Grants for Drinking Water State Revolving Funds ("DWSRF")	
Award Number and Award Year:	1U90TP000513-01 07/01/2012 – 06/30/2013 FS-15000112-0 09/30/2011 – 06/30/2018 FS-15000113-0 09/28/2012 – 09/30/2019 FS-99986513-0 09/28/2012 – 06/30/2019	

Finding and Cause and Effect

During our testing of the reporting compliance requirement, we noted that the Department implemented policies and procedures in prior years to address the Federal Funding Accountability and Transparency Act ("FFATA") reporting requirements for its federally funded programs subject to such requirements.

However, we noted the following matters that resulted in noncompliance with federal requirements:

- FFATA reports were not submitted for the HPP program during the state fiscal year 2013 due a lack of established policies and procedures over this requirement, as well as changes in program personnel.
- The CWSRF program did not implement policies and procedures to ensure compliance with FFATA reporting requirements.
- The DWSRF program reported subaward information to the EPA on its Projects and Benefits Reporting ("PBR") system but did not report the information on FSRS.gov as required under FFATA, as program personnel believed reporting in PBR was sufficient to meet FFATA requirements.

Noncompliance with FFATA reporting requirements reduces transparency of federal awards and could result in sanctions by the federal awarding agencies including increased oversight and/or reduction or elimination of federal awards.

**State of Hawaii
Department of Health
National Bioterrorism Hospital Preparedness Program
Capitalization Grants for Clean Water State Revolving Funds
Capitalization Grants for Drinking Water State Revolving Funds
Schedule of Findings and Questioned Costs
Year Ended June 30, 2013**

Criteria

In accordance with 2 CFR Part 170, the Department's programs are required to report executive compensation and first-tier subcontract awards on contracts and orders expected to be \$25,000 or more made with a new Federal Assistance Identification Number effective October 1, 2010 through the Federal Funding Accountability and Transparency Subaward Reporting System.

Recommendation

We recommend that the Department adhere to its policies and procedures in order to comply with federal regulations and submit any required FFATA reports for its programs.

State of Hawaii
Department of Health
National Bioterrorism Hospital Preparedness Program
Schedule of Findings and Questioned Costs
Year Ended June 30, 2013

		Questioned Cost
Finding No. 2013-006:	Subrecipient Monitoring	\$ _____ -
Federal Agency:	DHHS	
CFDA Number and Title:	93.889 – HPP	
Award Number and Award Year:	1U90TP000513-01 07/01/2012 – 06/30/2013	

Finding and Cause and Effect

In our prior year audit, we noted during our testing of the subrecipient monitoring compliance requirement that the HPP program did not perform monitoring of its subrecipient's OMB Circular A-133 audits due to the transition of program personnel in fiscal year 2012.

In fiscal year 2013, we noted that the program obtained an audit report in accordance with OMB Circular A-133 for the subrecipient's fiscal year ended June 30, 2011. However, we could not obtain adequate evidence that the program continued to monitor the progress of the subrecipient's OMB Circular A-133 audits for its fiscal years ended June 30, 2012 and 2013, including expected completion dates for the audits, possible items of concern, and possible remedial action.

Noncompliance with the subrecipient monitoring requirement could result in the Department not being aware of noncompliance with federal award requirements by its subrecipients. This could result in sanctions by DHHS such as increased oversight and/or reduction of future federal awards.

Criteria

In accordance with OMB Circular A-133 Section 400(d), we noted that the pass-through entity must ensure that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements for that fiscal year.

Recommendation

Per discussion with program personnel, we understand that they are currently discussing with the subrecipient procedures to ensure timely monitoring on a regular basis. We recommend that the program adhere to its policies and procedures to properly monitor that subrecipients obtain audits in accordance with OMB Circular A-133, review the audit reports, and issue management decisions on any findings applicable to the program.

**State of Hawaii
Department of Health
Public Health Emergency Preparedness
National Bioterrorism Hospital Preparedness Program
Schedule of Findings and Questioned Costs
Year Ended June 30, 2013**

		Questioned Cost
Finding No. 2013-007:	Suspension and Debarment Check	\$ _____
Federal Agency:	DHHS	
CFDA Number and Title:	93.069 – PHEP 93.889 – HPP	
Award Number and Award Year:	1U90TP000513-01 07/01/2012 – 06/30/2013	

Finding and Cause and Effect

During our testing of suspension and debarment compliance requirement for the HPP and PHEP programs, we noted that, due to changes in program personnel and the transition to the System for Awards Management ("SAM") system, the programs did not check if contractors on contracts equal to or exceeding \$25,000 were federally suspended or debarred.

Noncompliance with federal requirements could result in the Department being required to reimburse the awarding agency for payments to federally suspended or debarred parties, increased oversight, and/or reduction in federal awards.

Criteria

In accordance with 2 CFR section 180.995 and agency adopting regulations, we noted that the program is required to perform a verification of suspension and debarment status and maintain evidence of the verification by checking the SAM system, collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity.

Recommendation

We recommend that the programs designate individuals to ensure a verification check is performed and proper documentation of the verification is maintained.

State of Hawaii
Department of Health
Capitalization Grants for Clean Water State Revolving Funds
Schedule of Findings and Questioned Costs
Year Ended June 30, 2013

		Questioned Cost
Finding No. 2013-008:	Earmarking	\$ _____ -
Federal Agency:	EPA	
CFDA Number and Title:	66.458 – CWSRF	
Award Number and Award Year:	FS-15000113-0	09/28/2012 – 09/30/2019

Finding and Cause and Effect

During our testing of the green projects reserve requirement, we noted that the CWSRF program did not allocate the minimum 20 percent of its federal fiscal year 2010 award to green projects as required in the grant award.

We understand the program management believed that the program had until the end of the capitalization grant period to meet the requirement for green projects. We also understand the program intends to allocate amounts from other capitalization grants to cover the amount that was required for the federal fiscal year 2010 capitalization grant.

Noncompliance with earmarking requirements could result in sanctions by the EPA including increased oversight and/or reduction or elimination of federal awards.

Criteria

In accordance with the federal fiscal year 2010 award, the CWSRF program is required to identify and assign green projects to the respective year's capitalization grants and provide the green projects' reserve funds by the end of the following year.

Recommendation

We recommend that the Department implement policies and procedures to ensure the minimum required percentage of each year's capitalization grants are designated through final loan agreements by the end of the year following the grant award.

PART V

Prior Year Findings and Questioned Costs

This section updates the status of findings and questioned costs that were reported in prior years. Finding numbers relate to the sequence reported in the respective year.

State of Hawaii
Department of Health
Status of Prior Year Findings and Questioned Costs
Year Ended June 30, 2013

Finding No.	Description	Classification	Status		Current Year Finding No.
			Resolved	Unresolved	
12-01	Department of Human Services Transactions	Significant Deficiency		X	2013-001
12-02	Deposit Beverage Container Deposit Special Fund	Significant Deficiency		X	2013-002
12-03	Reporting	Significant Deficiency		X	2013-005
12-04	Subrecipient Monitoring			X	2013-006
12-05	Suspension and Debarment Check			X	2013-007
12-06	Cash Management	Material Weakness		X	2013-003

No corrective action was taken related to Finding No. 12-01 due to technical problems with the interface implemented in the prior year. As we have reported a current year finding, Finding N. 12-01 will not be carried forward.

Partial corrective action was taken to address Finding 12-02. The Department is actively recruiting inspectors to perform systematic inspections of distributors and redemption centers but has been unable to retain personnel. As we have reported a current year finding, Finding No. 12-02 will not be carried forward.

Corrective action taken to address Finding 12-03 is as follows:

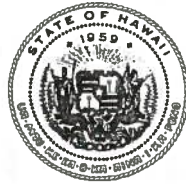
The Women, Infants and Children program and Aging Cluster implemented procedures to ensure FFATA reports are submitted in a timely manner.

The DWSRF program did not implement policies and procedures to submit FFATA reports in a proper manner and therefore a current year finding is reported. Consequently, this finding will not be carried forward.

No corrective actions were taken related to Finding Nos. 12-04, 12-05 and 12-06. However, as we have reported current year findings, Finding Nos. 12-04, 12-05 and 12-06 will not be carried forward.

Corrective Action Plan

NEIL ABERCROMBIE
GOVERNOR OF HAWAII



LINDA ROSEN, M.D., M.P.H.
DIRECTOR OF HEALTH

STATE OF HAWAII
DEPARTMENT OF HEALTH
P. O. BOX 3378
HONOLULU, HI 96801-3378

In reply, please refer to:
File

ASO-F/14-284

March 13, 2014

Office of the Auditor
465 South King Street, Suite 500
Honolulu, Hawaii 96813

Dear State Auditor:

Enclosed is the Department of Health's Corrective Action Plan for the findings on the audit report for fiscal year 2013.

We appreciate the opportunity to comment on the audit report.

Sincerely,

A handwritten signature in blue ink that reads "Linda Rosen MD MPA".

Linda Rosen M.D., M.P.H.
Director of Health

Enclosure

II. Financial Statement Findings

Finding No. 2013-001: Department of Human Services Transactions (Significant Deficiency)

Finding and Cause and Effect

The Department's Adult Mental Health Division ("AMHD") continues to work with the State of Hawaii, Department of Human Services ("DHS") to accurately and timely determine the settlement of Medicaid-related transactions for financial reporting purposes, which could lead to a material misstatement in the Department's financial statements. AMHD's Resource Management and Development Office implemented a process that involves interfacing with AMHD's Management Information Systems staff for an improved and more accurate Medicaid Rehabilitation Option claims administration process. However, in fiscal year 2013, there were technical problems with the interface resulting in billing delays for several months, which also resulted in delays in reconciliations performed by DHS. As the technical issues were resolved, AMHD is working to become current on its submission to DHS in fiscal year 2014.

Corrective Action Plan

AMHD will continue to work with DHS to reconcile payments and receipts in a timely manner. AMHD has assigned a Public Health Administrative Officer to be responsible for verifying and communicating with DHS to ensure reconciliations are completed on a timely basis.

Person Responsible

AMHD Chief and Public Health Administrative Officer VI

Anticipated Date of Completion

March 31, 2014

Finding No. 2013-002: Reliance on Third Party Certifications (Significant Deficiency)

Finding and Cause and Effect

The Deposit Beverage Container Program (the "Program") receives beverage container deposits and container fees from distributors and refunds deposits and pays handling fees to redemption centers based on certified information. The Program relies on

certifications from distributors to support deposits and container fees received. The Program also relies on certifications from redemption centers to support deposit refunds and handling fees paid. Overreliance on the self-reporting by distributors and redemption centers may result in underpayments on deposits and the related container fees received by the Department to administer the program, overpayments of deposit refunds and handling fees to redemption centers, and an overstated redemption rate. An overstated redemption rate could result in a material misstatement in the Department's financial statements, as well as higher container fees for consumers to support the program.

The program could mitigate the risk of fraud (underpayments by distributors and overpayments to redemption centers) by implementing a systematic process for monitoring the activities of and reports submitted by distributors and redemption centers. However, due to insufficient staff positions and turnover, management has been unable to establish a systematic monitoring process.

Corrective Action Plan

The Program in the Office of Solid Waste Management (OSWM) has not been able to audit reports and deposits received from distributors and reconcile claims from recycling companies primarily due to insufficient staff positions, turnover and numerous vacancies within the program. The Program has been actively recruiting and has managed to fill four vacancies within the last year. Currently there are three vacancies that also include an Office Assistant III (OA III) position that was established during this reporting period. Including the new OA III position, the Program currently has eleven staff assigned to the program.

The OSWM reviewed its organizational structure and staffing resources and determined that two accountant positions and one account clerk position were necessary to address the Program's need to monitor and audit the distributors and redemption centers on a regular basis. At the request of the OSWM, the Department recommended and the Governor approved the inclusion of two Accountant III positions and one Account Clerk II position in the Executive Supplemental Budget for FY 15. These positions are currently awaiting approval from the 2014 State of Hawaii Legislature. Because of the request for these additional three accounting positions, it will not be necessary for the Program to variance the vacant Environmental Health Specialist (EHS) III position to an Accountant III position. The Program will begin the recruitment process to fill the vacant EHS III position as soon as possible. In addition, an Accountant from another program is temporarily assisting the Accountant IV with the daily processing of deposits from over 250 distributors and payments to over 100 certified redemption centers throughout the State.

The OSWM will continue to strive towards establishing a systematic process for monitoring the activities of and reports submitted by distributors and redemption centers. Obtaining the additional accounting personnel requested in the Executive Budget will be critical in achieving this goal.

Person Responsible

Office of Solid Waste Management Coordinator

Anticipated Date of Completion

September 30, 2014

Finding No. 2013-003: Cash Management (Material Weakness)

During our testing of the Department's cash management procedures, we could not verify whether the State of Hawaii, Department of Accounting and General Services ("DAGS") disbursed funds from federal sources as close as administratively feasible to the Department's disbursements for the other federal awards programs identified above after the Department drew down the funds, in accordance with the Cash Management Improvement Act ("CMIA") Regulations & Guidance 31 CFR 205. The delays were caused by the State's deposit and payment process that required all State departments to process deposits through the Department of Budget and Finance ("B&F") and payments through DAGS resulting in processing delays.

The Department draws down federal funds that it estimates will be needed based on the vouchers processed daily. However, since deposits must be posted prior to the processing of payments or disbursing of the funds, it is difficult for the Department to disburse federal funds in accordance with CMIA requirements.

Corrective Action Plan

The Department of Health is part of the Executive Branch of the State of Hawaii. As such, the Department must follow the accounting guidelines and procedures provided by DAGS. DAGS requires that all cash receipts and disbursements must be recorded in the State's Financial Accounting Management and Information System (FAMIS).

The Department is one of the largest agencies in the Hawaii State Executive Branch. We have more than 150 federal grants with multiple grant years. Each program is responsible for managing their grant, reviewing invoices, and certifying invoices for payment. Our ASO Audit Unit of the Procurement and Audit Section reviews the submitted invoices and inputs payment data to FAMIS. The ASO Accounting Section prepares the daily cash management requirement spreadsheets based on FAMIS

reports and performs daily cash draws as needed. Because we are using the State System, we may not be able to meet the CMIA requirements for the disbursement of federal funds.

DAGS and B&F are currently developing an electronic Treasury Deposit Receipt (TDR) system called eTDR that will automatically verify Uniform Account Codes and decrease the processing time for recording and posting deposits. The completion date for eTDR is not known at this time.

Person Responsible

Administrative Services Officer and Fiscal Officer

Anticipated Date of Completion

Unknown

Finding No. 2013-004: Period of Availability (Material Weakness)

Finding and Cause and Effect

During our testing of the period of availability, compliance requirement for the Hawaii Strategic Prevention Framework State Incentive Grant ("SPF SIG") and Mental Health Transformation State Incentive Grant ("MHT SIG") programs under CFDA 93.243, we noted that there were procedures in place to ensure that obligations were incurred prior to the end of the project period. However, we noted that the programs did not have procedures in place to ensure that all obligations incurred were liquidated within 90 days of the end of the project period, the disbursement deadline stated in the award document.

Corrective Action Plan

Both the Alcohol and Drug Abuse Division (ADAD) and the Adult Mental Health Division (AMHD) have assigned their Public Health Administrative Officers to be responsible for ensuring that all obligations incurred are liquidated within the applicable disbursement deadline stated in the award document. ADAD and AMHD will implement procedures to comply with these federal regulations.

Person Responsible

Public Health Administrative Officer V (ADAD)
Public Health Administrative Officer VI (AMHD)

Anticipated Date of Completion

March 31, 2014

Finding No. 2013-005: Reporting (Significant Deficiency)

Finding and Cause and Effect

During our testing of the reporting compliance requirement, we noted that the Department implemented policies and procedures to address the Federal Funding Accountability and Transparency Act ("FFATA") reporting requirements for its federally funded programs subject to such requirements.

However, we noted the following matters that resulted in noncompliance with federal requirements:

- FFATA reports were not submitted for the HPP during the state fiscal year 2013 due to a lack of established policies and procedures over this requirement, as well as changes in program personnel.
- The CWSRF program did not implement policies and procedures to ensure compliance with FFATA reporting requirements.
- The DWSRF program reported subaward information to the EPA on its Projects and Benefits Reporting ("PBR") system but did not report the information on FSRs.gov as required under FFATA, as program personnel believed reporting in PBR was sufficient to meet FFATA requirements.

Noncompliance with FFATA reporting requirements reduces transparency of federal awards and could result in sanctions by the federal awarding agencies including increased oversight and/or reduction or elimination of federal awards.

Corrective Action Plan

Disease Outbreak Control Division (DOCD) recently filled its vacant Public Health Administrative Officer V and the vacant Fiscal Specialist positions. These positions will coordinate with the Chief of the Office of Planning, Policy and Program Development (OPPPD) to ensure that the FFATA reports are submitted in a timely manner.

The Wastewater Branch submitted reports for the CWSRF to www.FSRs.gov on October 22, 2013. For future FFATA reporting on FSRs, the date that the loan is "made and entered into," as stated in the first paragraph of the final loan, will be tracked to

ensure that CBR and FSRS.gov reporting is completed no later than the last day of the month following the month in which the final loan was "made and entered into."

The Safe Drinking Water Branch submitted the FFATA report for the DWSRF for SFY 2013 to www.FSRS.gov in December 2013. For future FFATA reporting on FSRS, the date that the loan is "made and entered into," as stated in the first paragraph of the final loan, will be tracked to ensure that PBR and FSRS.gov reporting is completed no later than the last day of the month following the month in which the final loan was "made and entered into."

Person Responsible

Overall responsibility to ensure that the FFATA reports are submitted: OPPPD Chief

Program responsibility for submitting FFATA reports:

Public Health Administrative Officer V and Fiscal Specialist (DOCD)

Wastewater Branch Chief (CWSRF)

Safe Drinking Water Branch Chief (DWSRF)

Anticipated Date of Completion

March 13, 2014 (HPP)

November 13, 2013 (CWSRF)

December 2, 2013 (DWSRF)

Finding No. 2013-006: Subrecipient Monitoring

Finding and Cause and Effect

In our prior year audit, we noted during our testing of the subrecipient monitoring and compliance requirement that the HPP program did not perform monitoring of its subrecipient's OMB Circular A-133 audits due to the transition of program personnel in fiscal year 2012.

In fiscal year 2013, we noted that the program obtained an audit report in accordance with OMB Circular A-133 for the subrecipient's fiscal year ended June 30, 2011. However, we could not obtain adequate evidence that the program continued to monitor the progress of the subrecipient's OMB Circular A-133 audits for its fiscal years ended June 30, 2012 and 2013, including expected completion dates for the audits, possible items of concern, and possible remedial action.

Noncompliance with the subrecipient monitoring requirement could result in the Department not being aware of noncompliance with the federal award requirements by its subrecipients. This could result in sanctions by DHHS such as increased oversight and/or reduction of future federal awards.

Corrective Action Plan

DOCD's Public Health Administrative Officer V will work with the subrecipient to follow the procedures to ensure timely monitoring on a regular basis.

Person Responsible

DOCD Chief & Public Health Administrative Officer V

Anticipated Date of Completion

September 30, 2014

Finding No. 2013-007: Suspension and Debarment Check**Finding and Cause and Effect**

During our testing of suspension and debarment compliance requirement for the HPP and PHEP programs, we noted that, due to changes in the program personnel and the transition to the System for Awards Management ("SAM") system, the programs did not check if contractors on contracts equal to or exceeding \$25,000 were federally suspended or debarred.

Noncompliance with federal requirements could result in the Department being required to reimburse the awarding agency for payments to federally suspended or debarred parties, increased oversight, and/or reduction in federal awards.

Corrective Action Plan

All DOCD's contracts are now routed through their PHAO V for review. The PHAO will be responsible for checking that contractors on contracts equal to or greater than \$25,000 are not federally suspended or debarred. A copy of the verification will be maintained in the contract file.

Person Responsible

DOCD Public Health Administrative Officer V

Anticipated Date of Completion

February 12, 2014

Finding No. 2013-008: Earmarking

Finding and Cause and Effect

During our testing of the green projects reserve requirement, we noted that the CWSRF program did not allocate the minimum 20 percent of its federal fiscal year 2010 award to green projects as required in the grant award.

We understand the program management believed that the program had until the end of the capitalization grant period to meet the requirement for green projects. We also understand the program intends to allocate amounts from other capitalization grants to cover the amount that was required for the federal fiscal year 2010 capitalization grant.

Noncompliance with earmarking requirements could result in sanctions by the EPA including increased oversight and/or reduction or elimination of federal awards.

Corrective Action Plan

Green Project Reserve (GPR) requirements in the federal appropriations law (P.L. 111-88), passed in the 2010 federal fiscal year, required that to the extent that there are sufficient eligible project applications, not less than 20% of the funds made available under the appropriations law shall be used by the state for projects to address green infrastructure, water or energy efficiency improvements or other environmentally innovative activities.

Although the Program made a good faith solicitation effort to fund the *North Kona Sewer and Effluent reuse - Phase 1* project in the FFY 2010 Intended Use Plan (IUP), the project was held up due to a bid protest and archaeological findings which were beyond the Program's control. The 20% GPR requirement only applies to the extent that there are sufficient eligible project applications. Since there were insufficient applications, the Program could not allocate 20% of funds to GPR projects, which is not inconsistent with the requirement, given the qualifying clause.

The Program will continue to make a good faith effort to fund GPR projects when available and update EPA on its progress in the Annual Report.

Person Responsible

Wastewater Branch Chief

Anticipated Date of Completion

November 13, 2013