

**FINANCIAL AUDIT OF THE  
DEPARTMENT OF HEALTH  
STATE OF HAWAII**

For the Fiscal Year Ended June 30, 2014

**Submitted by  
The Auditor  
State of Hawaii**



March 27, 2015

Ms. Jan Yamane, Acting State Auditor  
Office of the Auditor  
State of Hawaii

Dear Ms. Yamane:

This is our report on the financial audit of the Department of Health of the State of Hawaii (DOH) as of and for the fiscal year ended June 30, 2014. Our audit was conducted in accordance with the terms of our contract with the Office of the Auditor, State of Hawaii and with the requirements of the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the *Compliance Supplement for Single Audits of State and Local Governments*.

## **OBJECTIVES OF THE AUDIT**

The primary purpose of our audit was to form opinions on the fairness of the presentation of the DOH's basic financial statements as of and for the fiscal year ended June 30, 2014, and to comply with the requirements of OMB Circular A-133, which establishes audit requirements for state and local governments that receive federal financial assistance. More specifically, the objectives of the audit were as follows:

1. To provide a basis for opinions on the fairness of the DOH's basic financial statements and the schedule of expenditures of federal awards as of and for the fiscal year ended June 30, 2014.
2. To consider the DOH's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements.
3. To perform tests of the DOH's compliance with laws, regulations, contracts, and grants, including applicable provisions of the Hawaii Public Procurement Code (Chapter 103D and 103F, Hawaii Revised Statutes), that could have a direct and material effect on the determination of financial statement amounts.
4. To consider the DOH's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinions on compliance and to test and report on internal control over compliance.

5. To provide opinions on the DOH's compliance with applicable laws, regulations, contracts, and grants that could have a direct and material effect on each major program.

## SCOPE OF THE AUDIT

Our audit was conducted in accordance with auditing standards generally accepted in the United States of America as prescribed by the American Institute of Certified Public Accountants; *Government Auditing Standards*, issued by the Comptroller General of the United States; and the provisions of OMB Circular A-133. The scope of our audit included an examination of the transactions and accounting records of the DOH for the fiscal year ended June 30, 2014.

## ORGANIZATION OF THE REPORT

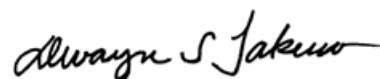
This report is presented in six parts as follows:

- Part I The basic financial statements and related notes to the financial statements of the DOH as of and for the fiscal year ended June 30, 2014, and our opinion on the basic financial statements and supplementary information.
- Part II Our report on internal control over financial reporting and on compliance and other matters.
- Part III Our report on compliance for each major program and internal control over compliance.
- Part IV The schedule of findings and questioned costs.
- Part V The summary schedule of prior audit findings.
- Part VI Corrective action plan as provided by the DOH.

We wish to express our sincere appreciation for the excellent cooperation and assistance extended by the officers and staff of the DOH.

Sincerely,

N&K CPAs, Inc.



Dwayne Takeno  
Principal

**DEPARTMENT OF HEALTH  
STATE OF HAWAII**

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**PART I**  
**FINANCIAL SECTION**

## INDEPENDENT AUDITOR'S REPORT

To 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 (Department), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the 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.

## **Opinions**

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, 2014, and the respective changes in financial position and, where applicable, cash flows thereof and budgetary comparisons for each major fund 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 A, the financial statements of the Department are intended to present the financial position, the changes in the financial position and, where applicable, cash flows and budgetary comparisons, 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, 2014, the changes in its financial position, or, where applicable, its cash flows and budgetary comparisons, for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 10 through 21 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 11, 2015 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.

N&K CPAs, Inc.

Honolulu, Hawaii  
March 11, 2015

**Department of Health  
State of Hawaii  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2014**

This Management's 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, 2014. Please read it in conjunction with the Department's financial statements and the related notes to the financials (which follow this section). The following is a brief description of the contents of those three sections:

### **Overview of the Basic 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) government-wide financial statements; (2) fund financial statements; and (3) notes to the basic financial statements.

### **Government-wide Financial Statements**

The government-wide financial statements provide 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 government-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 government-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 government-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.

**Department of Health  
State of Hawaii  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
June 30, 2014**

- *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 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, Hawaii tobacco settlement special fund, and deposit beverage container deposit special 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 government-wide financial statements. However, unlike the government-wide financial statements, governmental fund 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.

**Department of Health  
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MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
June 30, 2014**

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-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 government-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 government-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 government-wide financial statements since these resources are not available to support the Department's programs.

### **Notes to the Basic Financial Statements**

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

### **Government-wide Financial Highlights**

- The Department's total net position increased from \$796.1 million as of June 30, 2013 to \$879.3 million as of June 30, 2014, or by approximately \$83.2 million. The total increase in net position was attributed to increases in the Department's governmental activities net position of \$51.8 million and business type activities' net position of \$31.4 million during the year.
- The Department's governmental funds reported an aggregate increase in fund balance of approximately \$46.5 million during the year totaling \$216.0 million at June 30, 2014. Note that this is based on the fund balance at June 30, 2013 of \$169.5 million.

**Department of Health  
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MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
June 30, 2014**

The Department's proprietary funds, consisting of two revolving loan funds, reported an increase in net position of \$31.4 million for FY 2014. Total net position was \$624.1 million at June 30, 2014 compared to the FY 2013 year-end total of \$592.7 million.

**Government-Wide Financial Analysis**

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

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

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Current assets	\$ 304,830	\$ 285,086	\$ 231,292	\$ 246,538	\$ 536,122	\$ 531,624
Capital assets	61,487	53,829	260	212	61,747	54,041
ARRA advances	--	--	12,488	12,198	12,488	12,198
Loans receivable, noncurrent	--	--	<u>383,044</u>	<u>336,269</u>	<u>383,044</u>	<u>336,269</u>
Total assets	<u>\$ 366,317</u>	<u>\$ 338,915</u>	<u>\$ 627,084</u>	<u>\$ 595,217</u>	<u>\$ 993,401</u>	<u>\$ 934,132</u>
Current liabilities	\$ 93,018	\$ 115,139	\$ 770	\$ 512	\$ 93,788	\$ 115,651
Long term liabilities	<u>18,147</u>	<u>20,383</u>	<u>2,165</u>	<u>1,959</u>	<u>20,312</u>	<u>22,342</u>
Total liabilities	111,165	135,522	2,935	2,471	114,100	137,993
Net position						
Net investment in capital assets	61,487	53,829	259	212	61,746	54,041
Restricted	49,080	132,369	623,890	592,534	672,970	724,903
Unrestricted	<u>144,585</u>	<u>17,195</u>	<u>--</u>	<u>--</u>	<u>144,585</u>	<u>17,195</u>
Total net position	<u>255,152</u>	<u>203,393</u>	<u>624,149</u>	<u>592,746</u>	<u>879,301</u>	<u>796,139</u>
Total liabilities						
and net position	<u>\$ 366,317</u>	<u>\$ 338,915</u>	<u>\$ 627,084</u>	<u>\$ 595,217</u>	<u>\$ 993,401</u>	<u>\$ 934,132</u>

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, 2014, the Department's total net position was approximately \$879.3 million.

**Department of Health  
State of Hawaii  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
June 30, 2014**

At June 30, 2014, in addition to equity in cash and cash equivalents in the state treasury approximating \$369.6 million, the Department had total loans receivable from county governments in the amount of \$414.3 million arising from its two revolving loan funds. The Department had total liabilities of \$114.1 million at June 30, 2014 of which \$11.5 million relates to accrued wages and employee benefits payable. Approximately \$43.1 million in liabilities relate to vouchers and contracts payable. At June 30, 2014, restricted net position was \$673.0 million. The restrictions arise from legal and contractual agreements.

**Condensed Statement of Activities  
Fiscal Years Ended June 30,  
(\$000)**

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
<b>Revenue</b>						
Program revenues						
Charges for services	\$ 15,698	\$ 30,065	\$ 5,633	\$ 6,771	\$ 21,331	\$ 36,836
Operating grants and contributions	126,322	111,624	30,893	25,353	157,215	136,977
General revenues						
State appropriated funds	411,119	395,077	--	--	411,119	395,077
Non-imposed fringe benefits	49,850	44,801	--	--	49,850	44,801
Hawaii tobacco settlement special fund	52,321	48,425	--	--	52,321	48,425
Environmental fees and taxes	<u>54,116</u>	<u>39,534</u>	<u>--</u>	<u>--</u>	<u>54,116</u>	<u>39,534</u>
Total revenues	709,426	669,526	36,526	32,124	745,952	701,650
<b>Expenses</b>						
General administration	41,626	36,945	--	--	41,626	36,945
Environmental health administration	65,310	49,409	9,148	12,750	74,458	62,159
Behavioral health administration	210,827	228,744	--	--	210,827	228,744
Health resources administration	<u>293,246</u>	<u>331,127</u>	<u>--</u>	<u>--</u>	<u>293,246</u>	<u>331,127</u>
Total expenses	<u>611,009</u>	<u>646,225</u>	<u>9,148</u>	<u>12,750</u>	<u>620,157</u>	<u>658,975</u>
Excess before transfers	98,417	23,301	27,378	19,374	125,795	42,675
Transfers	<u>(46,658)</u>	<u>(20,511)</u>	<u>4,025</u>	<u>5,872</u>	<u>(42,633)</u>	<u>(14,639)</u>
Change in net position	51,759	2,790	31,403	25,246	83,162	28,036
<b>Net position</b>						
Beginning of year	<u>203,393</u>	<u>200,603</u>	<u>592,746</u>	<u>567,500</u>	<u>796,139</u>	<u>768,103</u>
End of year	\$ <u>255,152</u>	\$ <u>203,393</u>	\$ <u>624,149</u>	\$ <u>592,746</u>	\$ <u>879,301</u>	\$ <u>796,139</u>

**Department of Health  
State of Hawaii  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
June 30, 2014**

Governmental activities increased the Department's net position by \$51.8 million in FY 2014, which was 25.5% increase from FY 2013. The change is due to increases in General revenues of state appropriated funds, non-imposed fringe benefits, Hawai'i tobacco settlement special fund and Environmental fees and taxes. Effective July 1, 2013, cigarette tax distribution rates increased in accordance with Act 192, SHL 2010, which has significantly increased the revenue in FY 2014 compared to FY 2013. The Hawai'i tobacco settlement special fund received more revenues from the Master Settlement Agreement in FY 2014 and several programs received more federal grant awards in FY 2013. There were increases in the state appropriated funds of labor savings restoration resulting from ceasing Supplemental Time-Off, effective July 1, 2013 and pay raises/adjustments, in accordance with executive orders and collective bargaining agreements.

Revenues of the Department's business-type activities, which increased by \$4.4 million from 2013, 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, 2014, business-type activities increased the Department's net position by \$31.4 million to \$624.1 million as compared to the fiscal year ending June 30, 2013.

Total government-wide expenses for FY 2014 were \$620.2 million of which \$611.0 million was for governmental activities. As compared to FY 2013, total government-wide expenses were \$659.0 million of which \$646.2 million was for governmental activities. Overall, the Department is organized into four major administrations.

The Department's Behavioral Health Services Administration expended a significant 34.0 percent or \$210.8 million of departmental funds with a decrease of \$17.9 million over FY 2013. 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

**Department of Health  
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MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
June 30, 2014**

- Alcohol and Drug Abuse Division ("ADAD") which plans for and purchases substance abuse prevention and treatment services for adolescents and adults.

The decrease in expenses are 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.

The Department's Health Resources Administration expended approximately 47.3 percent of department funds. FY 2014 expenses for this Administration decreased \$37.9 million over FY 2013. 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 decrease in expenditures is due to payments made for invoices dated prior to July 1, 2013 for ambulance services in EMSIPSB that were paid after June 30, 2013.



**Department of Health  
State of Hawaii  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
June 30, 2014**

The Department's 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 12.0 percent of the departmental funds with an increase of \$12.3 million expended versus FY 2013 on a government-wide basis. This administration also manages both the Water Pollution Control Revolving and the Drinking Water Treatment Revolving Loan Funds.

Finally, Department's 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 6.7 percent of the departmental funds.

**Governmental Funds Financial Analysis**

The following table presents revenues and expenditures of the governmental funds for FY 2014 and FY 2013 (\$000):

	<u>2014</u>	<u>2013</u>
<b>Revenues</b>		
State general fund allotments	\$ 417,407	\$ 395,077
Non-imposed fringe benefits	49,850	44,801
Hawaii tobacco settlement special fund	52,321	48,245
Deposit beverage container deposit special fund	23,760	21,507
Intergovernmental	95,741	122,178
Taxes, fees, fines and other	70,934	37,247
Investment income	<u>289</u>	<u>1,108</u>
Total revenues	710,302	670,163
<b>Expenditures</b>		
General administration	45,251	34,612
Environmental health	65,378	48,759
Behavioral health	217,312	227,560
Health resources	<u>292,063</u>	<u>328,788</u>
Total expenditures	<u>620,004</u>	<u>639,719</u>
Excess of revenues over expenditures before transfers	\$ <u>90,298</u>	\$ <u>30,444</u>

**Department of Health  
State of Hawaii  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
June 30, 2014**

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

During the fiscal year ended June 30, 2014, general fund revenues were \$454.9 million, including \$49.7 million for fringe benefits paid directly from the State general fund. General fund expenditures were \$414.1 million.

For FY 2014, the HTSSF earned revenues of \$52.3 million. A net amount of \$32.1 million was transferred to other State departments and agencies of which \$4.7 million was for the Children's Health Insurance Program of the Department of Human Services, \$12.6 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 \$20.0 million was required to be transferred to the State's General Fund.

In FY 2014, the DBCDSF earned revenues of \$23.8 million from beverage container deposit administrative fees and unredeemed containers income. Of this amount received, \$21.1 million in expenditures were paid to redemption centers or utilized to fund the program. The fund collected \$46.7 million in deposits from distributors and repaid \$36.9 million in deposits to consumers during FY 2014.

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

The WPCRF 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 2014, WPCRF received \$8.4 million and \$2.2 million of federal and state funds, respectively. WPCRF also disbursed \$59.9 million in loan proceeds and collected \$27.4 million in principal repayments in 2014. As compared to 2013, the fund collected \$19.0 million and \$3.2 million in federal and state contributions, and disbursed \$28.5 million in loan proceeds and collected \$46.5 million in principal payments.

The DWTRLF 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 2014, DWTRLF received \$22.2 million and \$1.8 million of federal and state funds, respectively. DWTRLF also disbursed \$23.8 million in loan proceeds and collected \$4.8 million in principal repayments in 2014. As compared to 2013, the DWTRLF collected \$4.7 million and \$2.7 million in federal and state contributions, and disbursed \$3.3 million in loan proceeds and collected \$15.1 million in principal payments.

**Department of Health  
State of Hawaii  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
June 30, 2014**

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, Hawaii tobacco settlement special fund, and deposit beverage container deposit special fund for 2014:

	<b>Budgeted Amounts (\$000)</b>		<b>Actual on a Budgetary Basis (\$000)</b>
	<b>Original</b>	<b>Final</b>	
<b>General fund</b>			
Revenues	\$ 417,029	\$ 425,630	\$ 414,955
Expenditures			
General administration	27,627	27,982	27,065
Environmental health	17,737	18,266	17,735
Behavioral health	191,511	195,108	190,157
Health resources	180,155	184,273	179,996
<b>Hawaii tobacco settlement special fund</b>			
Revenues	58,996	59,061	52,309
Expenditures	58,996	59,061	52,429
<b>Deposit beverage container deposit special fund</b>			
Revenues	87,295	87,311	59,658
Expenditures	87,295	87,311	61,829

For the Hawaii tobacco settlement special fund, the actual expenditures of \$52.4 million in FY 2014 were \$0.1 million more than the actual revenues received.

The deposit beverage container program recognized revenues on a budgetary basis of \$59.7 million, which is based on the actual number of containers sold. In fiscal year 2013, there were 911.8 million containers sold. The amount of containers sold increased to 933.7 million in fiscal year 2014.

**Department of Health  
State of Hawaii  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
June 30, 2014**

**Capital Assets**

As of June 30, 2014, the Department's governmental activities had invested approximately \$61.5 million (net of accumulated depreciation) in a broad range of capital assets. See Note D to the Department's financial statements for a description of capital assets activities for the fiscal year ended June 30, 2014.

**Capital Assets  
Governmental Activities  
June 30, 2014  
(\$000)**

	<u>2014</u>	<u>2013</u>
Land	\$ 1,018	\$ 1,018
Land improvements	3,305	3,110
Buildings and building improvements	158,938	146,524
Furniture and equipment	<u>21,857</u>	<u>22,754</u>
Total	185,118	173,406
Accumulated depreciation	<u>123,631</u>	<u>119,577</u>
Total capital assets, net	\$ <u>61,487</u>	\$ <u>53,829</u>

**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 2014, AMHD serviced 10,408 clients as compared to the 10,728 clients serviced in FY 2013. 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 16 clients in FY 2014. In FY 2014, the program served 2,615 clients in the home and community-based waiver program as compared to 2,599 clients served in FY 2013.

**Department of Health  
State of Hawaii  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
June 30, 2014**

Further, the Federal Medical Assistance Percentage ("FMAP") increased from 48.21 percent to 49.52 percent for the period October 2012 to September 2013. The FMAP decreased from 49.52 percent to 48.15 percent effective October 2013 to September 2014. The FY 2014 year-end Average Cost per Client ("APC") increased to \$40,808 as compared to the FY 2013 year-end APC of \$39,739.

And lastly, the WPCRF executed a total of six loan agreements for \$39.4 million. DWTRLF executed a total of ten loan agreements for \$32.9 million during FY 2014. Further, the WPCRF expected to execute a total of four loan agreements in the amount of \$60.3 million while the DWTRLF expected to execute a total of eight loan agreements for \$56.0 million in FY 2015.

**Department of Health  
State of Hawaii  
STATEMENT OF NET POSITION  
June 30, 2014**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Current assets			
Equity in cash and cash equivalents and investments in State Treasury	\$ 171,480,368	\$ 198,135,915	\$ 369,616,283
Receivables			
Due from State Treasury	99,778,304	49,945	99,828,249
Due from other State agencies	2,757,000	--	2,757,000
Accrued interest and loan fees	77,318	1,655,910	1,733,228
Accounts receivable	1,447,690	--	1,447,690
Due from federal government	3,988,855	102,743	4,091,598
Tobacco settlement receivable	25,300,000	--	25,300,000
Current maturities of loans receivable	--	31,347,822	31,347,822
	<u>133,349,167</u>	<u>33,156,420</u>	<u>166,505,587</u>
Total current assets	<u>304,829,535</u>	<u>231,292,335</u>	<u>536,121,870</u>
ARRA advances	--	12,488,391	12,488,391
Loans receivable, net of current maturities	--	383,044,310	383,044,310
Capital assets, net of accumulated depreciation	<u>61,487,556</u>	<u>259,376</u>	<u>61,746,932</u>
Total assets	<u>\$ 366,317,091</u>	<u>\$ 627,084,412</u>	<u>\$ 993,401,503</u>
<b>LIABILITIES</b>			
Current liabilities			
Vouchers and contracts payable	\$ 42,679,724	\$ 372,273	\$ 43,051,997
Accrued wages and employee benefits payable	11,229,321	258,531	11,487,852
Unearned revenue	553,361	--	553,361
Accrued vacation, current portion	9,637,185	139,160	9,776,345
Workers' compensation liability	686,795	--	686,795
Due to other State agencies	26,367,863	--	26,367,863
Beverage container deposits	1,864,042	--	1,864,042
Total current liabilities	93,018,291	769,964	93,788,255
Accrued vacation, net of current portion	18,146,549	299,812	18,446,361
Other postemployment benefits	--	1,865,594	1,865,594
Total liabilities	<u>111,164,840</u>	<u>2,935,370</u>	<u>114,100,210</u>
<b>NET POSITION</b>			
Net investment in capital assets	61,487,556	259,376	61,746,932
Restricted for			
Loans	--	623,889,666	623,889,666
Trust fund programs	3,704,134	--	3,704,134
Medicaid programs	45,375,978	--	45,375,978
Unrestricted	<u>144,584,583</u>	<u>--</u>	<u>144,584,583</u>
Total net position	<u>255,152,251</u>	<u>624,149,042</u>	<u>879,301,293</u>
Total liabilities and net position	<u>\$ 366,317,091</u>	<u>\$ 627,084,412</u>	<u>\$ 993,401,503</u>

See accompanying notes to the basic financial statements.

**Department of Health  
State of Hawaii  
STATEMENT OF ACTIVITIES  
Fiscal Year Ended June 30, 2014**

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government		
				Governmental Activities	Business-Type Activities	Total
Primary government						
Governmental activities						
General administration	\$ 41,626,262	\$ 1,597,002	\$ 16,898,108	\$ (23,131,152)	\$ --	\$ (23,131,152)
Environmental health administration	65,310,125	4,536,438	11,182,681	(49,591,006)	--	(49,591,006)
Behavioral health services administration	210,826,499	654,359	17,912,497	(192,259,643)	--	(192,259,643)
Health resources administration	<u>293,246,529</u>	<u>8,910,334</u>	<u>80,328,874</u>	<u>(204,007,321)</u>	<u>--</u>	<u>(204,007,321)</u>
Total governmental activities	611,009,415	15,698,133	126,322,160	(468,989,122)	--	(468,989,122)
Business-type activities						
Environmental health loan program	<u>9,148,098</u>	<u>5,632,994</u>	<u>30,893,107</u>	<u>--</u>	<u>27,378,003</u>	<u>27,378,003</u>
Total business-type activities	<u>9,148,098</u>	<u>5,632,994</u>	<u>30,893,107</u>	<u>--</u>	<u>27,378,003</u>	<u>27,378,003</u>
Total primary government	\$ <u>620,157,513</u>	\$ <u>21,331,127</u>	\$ <u>157,215,267</u>	(468,989,122)	27,378,003	(441,611,119)
General revenues						
State general fund allotments, net				411,119,657	--	411,119,657
Non-imposed employee fringe benefits				49,849,725	--	49,849,725
Environmental response tax				1,239,739	--	1,239,739
Deposit beverage container fee				23,940,632	--	23,940,632
Advance glass disposal fee				820,954	--	820,954
Tobacco tax				28,115,080	--	28,115,080
Hawaii tobacco settlement special fund				52,320,859	--	52,320,859
Transfers				<u>(46,658,183)</u>	<u>4,025,000</u>	<u>(42,633,183)</u>
Total general revenues and transfers				<u>520,748,463</u>	<u>4,025,000</u>	<u>524,773,463</u>
Change in net position				51,759,341	31,403,003	83,162,344
Net position at July 1, 2013				<u>203,392,910</u>	<u>592,746,039</u>	<u>796,138,949</u>
Net position at June 30, 2014				\$ <u>255,152,251</u>	\$ <u>624,149,042</u>	\$ <u>879,301,293</u>

See accompanying notes to the basic financial statements.

**Department of Health  
State of Hawaii  
BALANCE SHEET - GOVERNMENTAL FUNDS  
June 30, 2014**

	General	Hawaii Tobacco Settlement	Deposit Beverage Container Deposit	Other Funds	Total Governmental
<b>ASSETS</b>					
Equity in cash and cash equivalents and investments in State Treasury	\$ --	\$ 23,924,453	\$ 20,428,262	\$ 127,127,653	\$ 171,480,368
Due from State Treasury	87,111,107	--	--	12,667,197	99,778,304
Due from other State agencies	--	--	--	2,757,000	2,757,000
Accrued interest receivable	--	--	--	77,318	77,318
Accounts receivable	--	--	1,447,690	--	1,447,690
Due from Federal government	--	--	--	3,988,855	3,988,855
Total assets	<u>\$ 87,111,107</u>	<u>\$ 23,924,453</u>	<u>\$ 21,875,952</u>	<u>\$ 146,618,023</u>	<u>\$ 279,529,535</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>					
Liabilities					
Vouchers and contracts payable	\$ 22,327,111	\$ 423,751	\$ 3,309,898	\$ 16,618,964	\$ 42,679,724
Accrued wages and employee benefits	8,536,015	139,230	37,435	2,516,641	11,229,321
Unearned revenue	--	--	--	553,361	553,361
Due to other State agencies	--	4,862,863	--	--	4,862,863
Beverage container deposits	--	--	1,864,042	--	1,864,042
Total liabilities	30,863,126	5,425,844	5,211,375	19,688,966	61,189,311
Deferred inflows of resources					
Unavailable revenues	--	--	181,207	2,153,000	2,334,207
Total deferred inflows of resources	--	--	181,207	2,153,000	2,334,207
Fund balances					
Restricted to					
Trust fund programs	--	--	--	3,704,134	3,704,134
Medicaid programs	--	--	--	43,222,978	43,222,978
Committed to					
Health resources administration	--	--	--	35,456,178	35,456,178
Environmental health administration	--	--	--	25,634,932	25,634,932
General administration	--	--	--	4,633,801	4,633,801
Tobacco settlement program	--	18,498,609	--	--	18,498,609
Deposit beverage container program	--	--	16,483,370	--	16,483,370
Capital projects activities	--	--	--	12,124,034	12,124,034
Assigned to					
Behavioral health administration	25,521,613	--	--	--	25,521,613
Health resources administration	17,541,581	--	--	--	17,541,581
General administration	13,184,787	--	--	--	13,184,787
Total fund balance	<u>56,247,981</u>	<u>18,498,609</u>	<u>16,483,370</u>	<u>124,776,057</u>	<u>216,006,017</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 87,111,107</u>	<u>\$ 23,924,453</u>	<u>\$ 21,875,952</u>	<u>\$ 146,618,023</u>	<u>\$ 279,529,535</u>

See accompanying notes to the basic financial statements.



**Department of Health  
State of Hawaii  
RECONCILIATION OF THE GOVERNMENTAL FUNDS FUND BALANCE  
TO THE STATEMENT OF NET POSITION  
June 30, 2014**

Total fund balance - governmental funds	\$ 216,006,017
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.	3,795,000
Capital assets used in governmental activities are not financial resources and therefore not reported as an asset in the governmental funds.	61,487,556
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.	(27,783,734)
Workers' compensation liability reported in the statement of net position does not require the use of current financial resources and therefore is not reported as a liability in the governmental funds.	(686,795)
Earned revenues not collected within 60 days and therefore not available for current financial resources reported as unavailable revenues in the governmental funds	<u>2,334,207</u>
Net position of governmental activities	\$ <u>255,152,251</u>

See accompanying notes to the basic financial statements.

**Department of Health  
State of Hawaii  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS  
Fiscal Year Ended June 30, 2014**

	<b>General</b>	<b>Hawaii Tobacco Settlement</b>	<b>Deposit Beverage Container Deposit</b>	<b>Other Funds</b>	<b>Total</b>
<b>REVENUES</b>					
State allotment, net	\$ 405,216,936	\$ --	\$ --	\$ 12,190,000	\$ 417,406,936
Intergovernmental	--	--	--	95,741,159	95,741,159
Hawaii tobacco settlement	--	52,320,859	--	--	52,320,859
Deposit beverage container deposit	--	--	23,759,425	--	23,759,425
Non-imposed employee fringe benefits	49,719,241	20,145	4,264	106,075	49,849,725
Taxes, fees, fines and other	--	--	--	70,934,334	70,934,334
Investment income	--	107	--	289,142	289,249
Total revenues	454,936,177	52,341,111	23,763,689	179,260,710	710,301,687
<b>EXPENDITURES</b>					
General administration	27,565,140	--	--	17,685,975	45,251,115
Environmental health	22,366,859	--	21,089,985	21,920,787	65,377,631
Behavioral health services	198,697,702	--	--	18,614,031	217,311,733
Health resources	165,509,404	19,251,731	--	107,302,100	292,063,235
Total expenditures	414,139,105	19,251,731	21,089,985	165,522,893	620,003,714
Excess of revenues over expenditures	40,797,072	33,089,380	2,673,704	13,737,817	90,297,973
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	--	12,916,489	--	76,234,858	89,151,347
Transfers out	(25,362,357)	(45,093,936)	--	(62,484,822)	(132,941,115)
Total other financing sources (uses)	(25,362,357)	(32,177,447)	--	13,750,036	(43,789,768)
Net change in fund balance	15,434,715	911,933	2,673,704	27,487,853	46,508,205
Fund balance at July 1, 2013	40,813,266	17,586,676	13,809,666	97,288,204	169,497,812
Fund balance at June 30, 2014	\$ 56,247,981	\$ 18,498,609	\$ 16,483,370	\$ 124,776,057	\$ 216,006,017

See accompanying notes to the basic financial statements.

**Department of Health  
State of Hawaii  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
Fiscal Year Ended June 30, 2014**

Net change in fund balance - total governmental funds	\$ 46,508,205
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 capital outlays exceeded depreciation for the year.	7,658,321
Decrease 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.	469,766
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.	(116,158)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.	<u>(2,760,793)</u>
Change in net position of governmental activities	\$ <u>51,759,341</u>

See accompanying notes to the basic financial statements.

**Department of Health  
State of Hawaii  
GENERAL FUND - BUDGETARY COMPARISON STATEMENT  
Fiscal Year Ended June 30, 2014**

	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>
	<b>Original</b>	<b>Final</b>	<b>(Budgetary Basis)</b>
<b>REVENUES</b>			
Current-year appropriations	\$ 417,029,126	\$ 425,630,440	\$ 414,954,540
Total revenues			
<b>EXPENDITURES</b>			
General administration	27,626,902	27,982,267	27,065,486
Environmental health administration	17,736,574	18,266,429	17,735,471
Behavioral health services administration	191,510,590	195,108,282	190,157,255
Health resources administration	180,155,060	184,273,462	179,996,328
Total expenditures	417,029,126	425,630,440	414,954,540
Excess of revenues over expenditures	\$ --	\$ --	\$ --

See accompanying notes to the basic financial statements.

**Department of Health**  
**State of Hawaii**  
**HAWAII TOBACCO SETTLEMENT SPECIAL FUND -**  
**BUDGETARY COMPARISON STATEMENT**  
**Fiscal Year Ended June 30, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary Basis)</u>
<b>REVENUES</b>			
Current-year funds	\$ <u>58,996,418</u>	\$ <u>59,061,281</u>	\$ <u>52,308,615</u>
Total revenues			
<b>EXPENDITURES</b>			
Health resources administration	<u>58,996,418</u>	<u>59,061,281</u>	<u>52,428,567</u>
Total expenditures	<u>58,996,418</u>	<u>59,061,281</u>	<u>52,428,567</u>
Excess of expenditures over revenues	\$ <u>          --</u>	\$ <u>          --</u>	\$ <u>      (119,952)</u>

See accompanying notes to the basic financial statements.

**Department of Health**  
**State of Hawaii**  
**DEPOSIT BEVERAGE CONTAINER DEPOSIT SPECIAL FUND -**  
**BUDGETARY COMPARISON STATEMENT**  
**Fiscal Year Ended June 30, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary Basis)</u>
<b>REVENUES</b>			
Current-year funds	\$ <u>87,295,331</u>	\$ <u>87,311,232</u>	\$ <u>59,658,362</u>
Total revenues			
<b>EXPENDITURES</b>			
Environmental health administration	<u>87,295,331</u>	<u>87,311,232</u>	<u>61,828,768</u>
Total expenditures	<u>87,295,331</u>	<u>87,311,232</u>	<u>61,828,768</u>
Excess of expenditures over revenues	\$ <u>          --</u>	\$ <u>          --</u>	\$ <u>     (2,170,406)</u>

See accompanying notes to the basic financial statements.

**Department of Health  
State of Hawaii  
STATEMENT OF NET POSITION - PROPRIETARY FUNDS  
June 30, 2014**

	<b>Water Pollution Control Revolving Fund</b>	<b>Drinking Water Treatment Revolving Loan Fund</b>	<b>Total</b>
<b>ASSETS</b>			
Current assets			
Equity in cash and cash equivalents and investments in State Treasury	\$ 128,692,696	\$ 69,443,219	\$ 198,135,915
Loan fees receivable	275,967	638,962	914,929
Accrued interest receivable	497,298	77,600	574,898
Other accrued interest	107,492	58,591	166,083
Due from State Treasury	49,945	--	49,945
Due from federal government	47,782	54,961	102,743
Current portion of loans receivable	<u>25,870,376</u>	<u>5,477,446</u>	<u>31,347,822</u>
Total current assets	155,541,556	75,750,779	231,292,335
ARRA advances	12,488,391	--	12,488,391
Loans receivable, net of current portion	310,150,393	72,893,917	383,044,310
Capital assets, net of accumulated depreciation	<u>22,861</u>	<u>236,515</u>	<u>259,376</u>
Total assets	<u>\$ 478,203,201</u>	<u>\$ 148,881,211</u>	<u>\$ 627,084,412</u>
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable and other accrued liabilities	\$ <u>240,557</u>	\$ <u>529,407</u>	\$ <u>769,964</u>
Total current liabilities	240,557	529,407	769,964
Accrued vacation, net of current portion	194,717	105,095	299,812
Other postemployment benefits	<u>1,265,604</u>	<u>599,990</u>	<u>1,865,594</u>
Total liabilities	1,700,878	1,234,492	2,935,370
<b>NET POSITION</b>			
Net investment in capital assets	22,861	236,515	259,376
Restricted - expendable	<u>476,479,462</u>	<u>147,410,204</u>	<u>623,889,666</u>
Total net position	<u>476,502,323</u>	<u>147,646,719</u>	<u>624,149,042</u>
Total liabilities and net position	<u>\$ 478,203,201</u>	<u>\$ 148,881,211</u>	<u>\$ 627,084,412</u>

See accompanying notes to the basic financial statements.

**Department of Health  
State of Hawaii  
STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN FUND NET POSITION - PROPRIETARY FUNDS  
Fiscal Year Ended June 30, 2014**

	<b>Water Pollution Control Revolving Fund</b>	<b>Drinking Water Treatment Revolving Loan Fund</b>	<b>Total</b>
<b>OPERATING REVENUES</b>			
Interest income from loans	\$ 2,122,535	\$ 243,295	\$ 2,365,830
Administrative loan fees	<u>1,223,722</u>	<u>2,043,442</u>	<u>3,267,164</u>
Total revenues	3,346,257	2,286,737	5,632,994
<b>EXPENSES</b>			
Administrative	1,969,500	950,457	2,919,957
State program management	--	581,834	581,834
Water protection	--	1,687,143	1,687,143
Principal forgiveness for SRF	<u>2,000,000</u>	<u>1,959,164</u>	<u>3,959,164</u>
Total expenses	<u>3,969,500</u>	<u>5,178,598</u>	<u>9,148,098</u>
Operating loss	(623,243)	(2,891,861)	(3,515,104)
<b>NONOPERATING REVENUES AND EXPENSES</b>			
State contributions	2,200,000	1,825,000	4,025,000
Federal contributions	8,187,591	21,821,807	30,009,398
Federal ARRA contributions	290,208	--	290,208
Other interest income	<u>400,691</u>	<u>192,810</u>	<u>593,501</u>
Total nonoperating revenues and expenses	<u>11,078,490</u>	<u>23,839,617</u>	<u>34,918,107</u>
Change in net position	<u>10,455,247</u>	<u>20,947,756</u>	<u>31,403,003</u>
<b>NET POSITION</b>			
Beginning of year	<u>466,047,076</u>	<u>126,698,963</u>	<u>592,746,039</u>
End of year	\$ <u><u>476,502,323</u></u>	\$ <u><u>147,646,719</u></u>	\$ <u><u>624,149,042</u></u>

See accompanying notes to the basic financial statements.



**Department of Health  
State of Hawaii  
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS  
Fiscal Year Ended June 30, 2014**

	<b>Water Pollution Control Revolving Fund</b>	<b>Drinking Water Treatment Revolving Loan Fund</b>	<b>Total</b>
<b>Cash flows from operating activities</b>			
Interest income from loans	\$ 2,129,787	\$ 227,760	\$ 2,357,547
Administrative loan fees	1,228,463	2,033,018	3,261,481
Principal repayments on loans	27,352,640	4,769,474	32,122,114
Disbursement of loan proceeds	(59,877,915)	(23,763,260)	(83,641,175)
Payments to employments	(1,550,764)	(958,392)	(2,509,156)
Payments to vendors	<u>(140,522)</u>	<u>(1,930,883)</u>	<u>(2,071,405)</u>
Net cash used in operating activities	(30,858,311)	(19,622,283)	(50,480,594)
<b>Cash flows from noncapital financing activities</b>			
State contributions	2,200,000	1,825,000	4,025,000
Federal contributions	8,125,594	22,259,217	30,384,811
Federal ARRA contributions	290,208	--	290,208
Disbursement of ARRA advances	<u>(290,208)</u>	<u>--</u>	<u>(290,208)</u>
Net cash provided by noncapital financing activities	10,325,594	24,084,217	34,409,811
<b>Cash flows from capital and related financing activities</b>			
Purchase of equipment	<u>(6,308)</u>	<u>(119,252)</u>	<u>(125,560)</u>
Net cash used in capital and related financing	(6,308)	(119,252)	(125,560)
<b>Cash flows from investing activities</b>			
Other interest income	<u>387,383</u>	<u>176,345</u>	<u>563,728</u>
Net cash provided by investing activities	<u>387,383</u>	<u>176,345</u>	<u>563,728</u>
Net (decrease) increase in cash	(20,151,642)	4,519,027	(15,632,615)
<b>Equity in cash and cash equivalents and investments in State Treasury</b>			
Beginning of year	<u>148,844,338</u>	<u>64,924,192</u>	<u>213,768,530</u>
End of year	\$ <u>128,692,696</u>	\$ <u>69,443,219</u>	\$ <u>198,135,915</u>

See accompanying notes to the basic financial statements.

**Department of Health  
State of Hawaii  
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS (Continued)  
Fiscal Year Ended June 30, 2014**

	<b>Water Pollution Control Revolving Fund</b>	<b>Drinking Water Treatment Revolving Loan Fund</b>	<b>Total</b>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities</b>			
Operating loss	\$ (623,243)	\$ (2,891,861)	\$ (3,515,104)
Adjustments to reconcile operating loss to net cash used in operating activities			
Depreciation expense	10,429	67,420	77,849
Principal forgiveness for SRF	2,000,000	1,959,164	3,959,164
Change in assets and liabilities			
Loan fees receivable	4,741	(10,424)	(5,683)
Accrued interest on loans receivables	7,252	3,474	10,726
Loans receivable	(32,525,275)	(18,993,786)	(51,519,061)
Due from State Treasury	(49,945)	--	(49,945)
Accounts payable and other accrued liabilities	175,766	152,563	328,329
Other postemployment benefits	<u>141,964</u>	<u>110,176</u>	<u>252,140</u>
Net cash used in operating activities	\$ <u>(30,858,311)</u>	\$ <u>(19,603,274)</u>	\$ <u>(50,461,585)</u>
<b>Disclosure of noncash investing, capital, and financing activities</b>			
In-kind contribution from the Environmental Protection Agency	\$ 115,807	\$ --	\$ 115,807

See accompanying notes to the basic financial statements.

**Department of Health  
State of Hawaii  
STATEMENT OF FIDUCIARY NET POSITION - AGENCY FUNDS  
June 30, 2014**

**ASSETS**

Cash and cash equivalents	\$ <u>454,719</u>
Total assets	<u>454,719</u>

**LIABILITIES**

Due to others	<u>454,719</u>
Total liabilities	<u>454,719</u>

<b>NET POSITION</b>	\$ <u>    --    </u>
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See accompanying notes to the basic financial statements.

**Department of Health  
State of Hawaii  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2014**

**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

- (1) **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 ("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, 2014, 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 the State's Comprehensive Annual Financial Report ("CAFR"), 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 CAFR but are not included in the Department's basic financial statements.

- (2) **Government-wide Financial Statements** - The government-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

**Department of Health  
State of Hawaii  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2014**

**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Continued)**

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 government-wide financial statements since these resources are not available to support the Department's programs.

- (3) ***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 government-wide financial statements described above.

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. The principal operating revenues of the proprietary funds are interest income and administrative loan fees on loans made to county governments. Federal grants, state matching funds and interest income from sources other than loans are reported as nonoperating revenues. Principal forgiveness for loans and ARRA advances are reported as operating 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.

**Department of Health  
State of Hawaii  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2014**

**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Continued)**

- *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 ("GASBS 54"), *Fund Balance Reporting and Governmental Fund Type Definitions*. GASBS 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:

- *Nonspendable fund balance* - amounts that are not in spendable form (such as inventory) or are required to be maintained in tact;
- *Restricted* - amounts constrained to specific purposes by their providers (such as creditors, grantors or other governments) through constitutional provisions, or by enabling legislation;
- *Committed* - amount constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level of action to remove or change the constraint;
- *Assigned* - amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the government delegates the authority;
- *Unassigned* - amounts that are available for any purpose; positive amounts are reported only in the general fund.

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.

**Department of Health  
State of Hawaii  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2014**

**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Continued)**

**Propriety 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.

- (4) ***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. 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 CAFR which may be obtained from the Department of Accounting and General Services' ("DAGS") website: <http://ags.hawaii.gov/accounting/annual-financial-reports/>.

- (5) ***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 government-wide financial statements.

**Department of Health  
State of Hawaii  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2014**

**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Continued)**

- (6) ***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 \$2.8 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.

- (7) ***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 ("HTSSF"). The Department receives all tobacco settlement monies and then allocates and appropriates 75 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 recognized approximately \$52.3 million in tobacco settlement revenues during the year ended June 30, 2014. In accordance with GASB Technical Bulletin No. 2004-1, *Tobacco Settlement Recognition and Financial Reporting Entity Issues*, the Department has recorded a tobacco settlement receivable for \$25.3 million in the statement of net position representing tobacco settlements earned for the period January 1, 2014 through June 30, 2014.

- (8) ***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.



Department of Health  
State of Hawaii  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2014

**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Continued)**

- (9) **Loan 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.
- (10) **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.
- (11) **Capital Assets** - Capital assets, which include buildings, furniture, and equipment, are reported in the applicable governmental or business-type activities in the government-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 government-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:

	<u>Governmental- Type Activities</u>	<u>Business- Type Activities</u>
Land improvements	15	Not applicable
Building and building improvements	30	Not applicable
Furniture and equipment	5 - 7	5 - 7

**Department of Health  
State of Hawaii  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2014**

**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Continued)**

- (12) ***Unearned revenue*** - Unearned revenues at the government-wide level and fund 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 unearned revenue is removed from the statement of net position and balance sheet, and revenue is recognized. Unearned revenues at June 30, 2014 consisted primarily of Federal grant funds for which all eligibility requirements had not yet been met.
- (13) ***Due to Other State Agencies*** - Payables to other State agencies consist of funds allocated to other State agencies in accordance with the HTSSF. The amount allocated to other funds in accordance with the HTSSF is \$26.4 million.
- (14) ***Beverage Container Deposits and Container Fees*** - Deposits of \$0.05 are made by distributors to the deposit beverage container deposit special fund ("DBCDSF") for each qualifying container. The DBCDSF maintains all deposits until the redemption centers claim reimbursement for the deposits paid to consumers. The DBCDSF maintains the deposits that are expected to be redeemed. In addition, deposits of \$0.015 are made by the distributors to the DBCDSF for each qualifying container as a handling fee.

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.

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

- (15) ***Deferred Outflows/Inflows of Resources*** - In addition to assets, the statement of net position and the balance and or the governmental funds balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. The Department does not have any items that qualify for reporting in this category.

**Department of Health  
State of Hawaii  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2014**

**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Continued)**

In addition to liabilities, the statement of net position and or the governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Department has only one type of item, which arises only under the modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue is reported only in the governmental funds balance sheet. The amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

- (16) ***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.
- (17) ***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, 2014, accumulated sick leave was approximately \$71.4 million.
- (18) ***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.
- (19) ***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.

Department of Health  
State of Hawaii  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2014

**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Continued)**

- (20) **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, 2014 for the Department's governmental funds were approximately:

General	\$ 56,248,000
Hawaii tobacco settlement special fund	5,909,000
Deposit beverage container deposit special fund	7,480,000
Other funds	<u>12,725,000</u>
Total	\$ <u>82,362,000</u>

- (21) **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.
- (22) **Nonmonetary Transactions** - The Department receives noncash awards for one of its federally funded programs. The Department expended approximately \$14,092,000 in vaccines in fiscal year 2014.
- (23) **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.

- (24) **New Accounting Pronouncements** - Effective for the year ended June 30, 2014, the Department adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* ("GASBS 65"). The objective of GASBS 65 is to reclassify certain assets and liabilities as deferred outflows of resources and deferred inflow of resources and recognizes certain assets and liabilities as outflows of resources or inflows of resources. The adoption of GASBS 65 did not have a material effect on the Department's financial statements.

**Department of Health  
State of Hawaii  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2014**

**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Continued)**

Effective for the year ended June 30, 2014, the Department adopted GASB Statement No. 66, *Technical Corrections - 2012 - an amendment of GASB Statements No. 10. and No. 62* ("GASBS 66"). The objective of this GASBS 66 is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, GASBS 54 and GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The adoption of GASBS 66 did not have a material effect on the Department's financial statements.

Effective for the year ended June 30, 2014, the Department adopted GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* ("GASBS 70"). This objective of GASBS 70 is to enhance comparability of financial statements among governments by requiring consistent reporting by those governments that extend nonexchange financial guarantees and by those governments that receive nonexchange financial guarantees. GASBS 70 also will enhance the information disclosed about a government's obligations and risk exposure from extending nonexchange financial guarantees as well as augment the ability of financial statement users to assess the probability that governments will repay obligation holders by requiring disclosures about obligations that are issued with this type of financial guarantee. The adoption of GASBS 70 did not have a material effect on the Department's financial statements.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* ("GASBS 68"). The objective of GASBS 68 is to establish accounting and financial reporting requirements for pensions of governments. The requirements of GASBS 68 are effective for reporting periods beginning after June 15, 2014. Management has not yet determined the effect GASBS 68 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 - an amendment of GASB Statement No. 68* ("GASBS No. 71"). The objective of GASBS 71 is to improve accounting and financial reporting by addressing an issue in GASBS 68 concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of GASBS 68 by employers and nonemployer contributing entities. The requirements for GASBS 71 are effective for periods beginning after June 15, 2014. Management has not yet determined the effect GASBS 71 will have on the Department's financial statements.

**Department of Health  
State of Hawaii  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2014**

**NOTE B - 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 cash basis of accounting, except for the encumbrance of purchase orders and contract obligations (basis difference), which is a basis of accounting other than GAAP.

**Department of Health  
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NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2014**

**NOTE B - BUDGETING AND BUDGETARY CONTROL (Continued)**

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 over expenditures (expenditures over revenues) on a budgetary basis at June 30, 2014, to excess of revenues over expenditures presented in conformity with GAAP follows:

	<u>General</u>	<u>Hawaii Tobacco Settlement</u>	<u>Deposit Beverage Container Deposit</u>
Excess of revenues over expenditures (expenditures over revenues) - actual on a budgetary basis	\$ --	\$ (119,952)	\$ (2,170,406)
Reserve for encumbrances at year end	56,247,981	5,908,706	7,480,093
Expenditures for liquidation of prior year's encumbrances	(70,994,637)	(5,372,654)	(8,927,423)
Accruals and other adjustments	<u>55,543,728</u>	<u>32,673,280</u>	<u>6,291,440</u>
Excess of revenues over expenditures - GAAP basis	\$ <u>40,797,072</u>	\$ <u>33,089,380</u>	\$ <u>2,673,704</u>

**NOTE C - LOAN RECEIVABLE**

At June 30, 2014, 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 2014, \$3,959,164 in loans were forgiven. All loans and advances forgiven were in accordance with required conditions. Accrued interest receivable on the loans amounted to approximately \$575,000 at June 30, 2014.

The following is a schedule of principal payments due on loans for projects completed or in progress as of June 30, 2014:

<u>Year ending June 30,</u>	
2015	\$ 31,347,822
2016	31,299,810
2017	30,775,938
2018	30,564,750
2019	29,595,777
Thereafter	<u>260,808,035</u>
	\$ <u>414,392,132</u>

**Department of Health  
State of Hawaii  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2014**

**NOTE D - CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2014 was as follows:

	Beginning Balance	Additions	Dispositions	Ending Balance
<b>Governmental activities</b>				
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	3,110,581	194,185	--	3,304,766
Building and building improvements	146,523,651	12,414,114	--	158,937,765
Furniture and equipment	22,753,579	1,633,407	(2,529,348)	21,857,638
Total capital assets being depreciated	172,387,811	14,241,706	(2,529,348)	184,100,169
Less: Accumulated depreciation				
Land improvements	1,987,693	128,487	--	2,116,180
Building and building improvements	99,470,933	2,989,518	--	102,460,451
Furniture and equipment	18,118,030	2,101,622	(1,165,590)	19,054,062
Total accumulated depreciation	119,576,656	5,219,627	(1,165,590)	123,630,693
Governmental activities capital assets, net	\$ 53,829,235	\$ 9,022,079	\$ (1,363,758)	\$ 61,487,556
<b>Business-type activities</b>				
Capital assets being depreciated				
Furniture and equipment	\$ 1,315,199	\$ 125,560	\$ --	\$ 1,440,759
Total capital assets being depreciated				
Less: Accumulated depreciation for equipment	1,103,534	77,849	--	1,181,383
Total accumulated depreciation	1,103,534	77,849	--	1,181,383
Business-type activities capital assets, net	\$ 211,665	\$ 47,711	\$ --	\$ 259,376

Current period depreciation expense was charged to functions as follows:

<b>Governmental activities</b>	
General administration	\$ 556,240
Environmental health	494,428
Behavioral health services	1,418,056
Health resources	2,750,903
Total depreciation expense - governmental activities	\$ 5,219,627
<b>Business-type activities</b>	
Environmental health	\$ 77,849
Total depreciation expense - business-type activities	\$ 77,849



**Department of Health  
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NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2014**

**NOTE E - ACCRUED VACATION**

The changes to the accrued vacation liability during 2014 were as follows:

	Governmental Activities	Business-Type Activities
Balance at July 1, 2013	\$ 28,253,500	\$ 429,459
Increase	11,696,829	189,717
Decrease	<u>(12,166,595)</u>	<u>(180,204)</u>
Balance at June 30, 2014	27,783,734	438,972
Less: Current portion	<u>9,637,185</u>	<u>139,160</u>
Noncurrent portion	\$ <u>18,146,549</u>	\$ <u>299,812</u>

**NOTE F - BEVERAGE CONTAINER DEPOSITS**

The changes to the beverage container deposit liability during 2014 were as follows:

Balance at July 1, 2013	\$ 1,931,621
Increase: Deposits received from distributor	46,686,419
Decrease: Payments made to redemption centers, net of refunds	(36,930,958)
Decrease: Unredeemed deposits recognized as revenue	<u>(9,823,040)</u>
Balance at June 30, 2014	\$ <u>1,864,042</u>

**NOTE G - CHANGES IN ASSETS AND LIABILITIES OF THE AGENCY FUNDS**

The agency funds are purely custodial (assets equal liabilities) and thus do not involve the measurement of results of operations. The changes in assets and liabilities of the agency funds for the fiscal year ended June 30, 2014, were as follows:

	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014
<b>Assets</b>				
Cash and cash equivalents	\$ <u>430,253</u>	\$ <u>223,010</u>	\$ <u>198,544</u>	\$ <u>454,719</u>
<b>Liabilities</b>				
Due to others	\$ <u>430,253</u>	\$ <u>223,010</u>	\$ <u>198,544</u>	\$ <u>454,719</u>

**Department of Health  
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NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2014**

**NOTE H - 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 \$49.9 million for the fiscal year ended June 30, 2014, 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.

**NOTE I - 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 \$23.0 million, \$21.4 million, and \$21.1 million for the fiscal years ended June 30, 2014, 2013, and 2012, 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 the State's total covered employee headcount by each component unit or proprietary fund for retiree health benefits.

**Department of Health  
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NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2014**

**NOTE I -EMPLOYEE BENEFIT PLANS (Continued)**

*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, 2014:

	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Loan Fund	Total
Annual OPEB cost	\$ 253,980	\$ 179,280	\$ 433,260
Less: Contributions made	<u>(112,016)</u>	<u>(69,104)</u>	<u>(181,120)</u>
Increase in net OPEB obligation	141,964	110,176	252,140
Net OPEB obligation, beginning of year	<u>1,123,640</u>	<u>489,814</u>	<u>1,613,454</u>
Net OPEB obligation, end of year	\$ <u>1,265,604</u>	\$ <u>599,990</u>	\$ <u>1,865,594</u>

*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, 2014, 2013, and 2012 were approximately \$3.4 million, \$3.2 million, and \$2.5 million.

*Required Supplementary Information and Disclosures*

The State's CAFR includes the required 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.

**Department of Health  
State of Hawaii  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2014**

**NOTE J - COMMITMENTS AND CONTINGENCIES**

**Operating Leases**

The Department leases various office facilities and equipment through fiscal year 2020 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, 2014:

<u>Year ending June 30,</u>	
2015	\$ 449,000
2016	362,000
2017	196,000
2018	77,000
2019	77,000
Thereafter	<u>58,000</u>
	\$ <u>1,219,000</u>

Rental expenditures for the fiscal year ended June 30, 2014 approximated \$2,486,000.

**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, 2014, 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 expenditures for the year ended June 30, 2014 were approximately \$377,000 and \$54,000 for the general fund and other funds, respectively.

**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.

**Department of Health  
State of Hawaii  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2014**

**NOTE J - COMMITMENTS AND CONTINGENCIES (Continued)**

**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.

## **SUPPLEMENTARY INFORMATION**

**Department of Health  
State of Hawaii  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Fiscal Year Ended June 30, 2014**

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Project Number	Federal CFDA Number	Federal Expenditures	Amount Provided to Subrecipients
<b>U.S. Department of Health and Human Services</b>				
Direct Programs				
TB Epidemiological Studies Consortium	626	200-2011-41277	\$ 293,581	\$ --
Special Programs for Aging - Title VII Chapter 3	468	93.041	9,563	
Special Programs for Aging - Title VII Chapter 2	468	93.042	71,854	--
Special Programs for Aging - Title III Part D	401	93.043	108,196	108,196
Special Programs for Aging - Title III Part B - Grants for Supportive Services and Senior Centers	401	93.044	2,564,654	2,461,689
Special Programs for Aging - Title III Part C - Nutrition Services	401	93.045	1,933,903	1,459,344
Nutrition Services Incentive Program	406	93.053	352,811	352,811
Subtotal Aging Cluster			4,851,368 *	4,273,844
Special Programs for Aging - Title IV and Title II - Discretionary Projects	405, 478, 628	93.048	402,135	25,494
National Family Caregiver Support, Title III, Part E	401	93.052	703,432	703,432
Public Health Emergency Preparedness	1297	93.069	5,094,574 *	--
Environmental Public Health and Emergency Response	444	93.070	290,903	285,456
Hawaii's Lifespan Respite Care Program	627	93.072	77,128	--
Emergency System for Advance Registration of Volunteer Health Professionals	588	93.089	162,466	--
Personal Responsibility Education Program Grant	613	93.092	141,141	64,832
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances	589, 632	93.104	1,922,107	--
Maternal and Child Health Federal Consolidated Programs	257, 307, 466	93.110	765,301	--
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	247	93.116	741,057	--
Emergency Medical Services for Children	388, 392	93.127	20,381	--
Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	298	93.130	158,649	--
Injury Prevention and Control Research and State and Community Based Programs	278, 343	93.136	276,016	--
Projects for Assistance in Transition from Homelessness	24208, 25208	93.150	89,769	89,769
Program for Infants and Toddlers with Handicaps	285	93.200	128,655	--
Hansen's Disease National Ambulatory Care Program	264	93.215	929,889	--
Family Planning - Services	239	93.217	2,268,988	1,810,635
Abstinence Education Program	273	93.235	109,051	108,985
State Rural Hospital Flexibility Program	415	93.241	344,365	--
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	various	93.243	911,859	--
Universal Newborn Hearing Screening	416	93.251	128,319	--
Immunization Cooperative Agreements	457	93.268	16,728,156 *	--

\* Denotes Major Federal Program

The accompanying notes are an integral part of this schedule.

**Department of Health  
State of Hawaii  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)  
Fiscal Year Ended June 30, 2014**

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Project Number	Federal CFDA Number	Federal Expenditures	Amount Provided to Subrecipients
<b>U.S. Department of Health and Human Services (Continued)</b>				
Adult Viral Hepatitis Prevention and Control	397	93.270	\$ 85,189	\$ --
Substance Abuse and Mental Health Services - Access to Recovery	396	93.275	3,785,084 *	3,472,275
Centers for Disease Control and Prevention - Investigations and Technical Assistance	various	93.283	2,149,844	1,542,343
State Partnership Grant Program to Improve Minority Health	611	93.296	43,486	--
Small Rural Hospital Improvement Grant Program	454	93.301	48,600	--
State Health Insurance Assistance Program	403	93.324	217,534	--
Food Safety and Security Monitoring Project	580	93.448	231,305	--
Affordable Care Act - Maternal, Infant, and Early Childhood Home Visiting Program	602, 629	93.505	3,790,679 *	3,312,373
PPHF National Public Health Improvement Initiative	285, 615	93.507	929,180	--
ELC/EIP - Prevention and Public Health Fund and Other Capacity- Building Activities	607	93.521	922,933	--
Prevention and Public Health Fund Affordable Care Act - Immunization Program	624	93.539	110,678	--
Coordinated Chronic Disease Prevention and Health Promotion Program	631	93.544	226,194	237,191
Community-Based Child Abuse Prevention Grants	270	93.590	381,474	252,487
Development Disabilities Basic Support and Advocacy Grants	240	93.630	422,634	--
ARRA - Prevention and Wellness - State, Territories and Pacific Islands	593	93.723	22,800	18,194
ARRA - Prevention and Wellness - Communities Putting Prevention to Work Funding Opportunities Announcement	604	93.724	24,211	20,856
PPHF: Breast and Cervical Cancer Screening Opportunities for States, Tribes and Territories solely financed by Prevention and Public Health Funds	640	93.744	37,893	37,893
State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	221, 380, 387	93.777	1,660,054	--
Centers for Medicare and Medicaid Services Research, Demonstrations and Evaluations	590	93.779	204,144	161,014
National Bioterrorism Hospital Preparedness Program	435	93.889	2,150,834	1,808,949
Grants to States for Operation of Offices of Rural Health	299	93.913	143,387	--
HIV Care Formula Grants	293	93.917	2,807,152	2,079,529
Cooperative Agreements for State-Based Comprehensive Breast and Cervical Early Detection programs	448	93.919	1,109,190	1,109,190
Healthy Start Initiative	286	93.926	338,726	185,300

\* Denotes Major Federal Program

The accompanying notes are an integral part of this schedule.



**Department of Health  
State of Hawaii  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)  
Fiscal Year Ended June 30, 2014**

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Project Number	Federal CFDA Number	Federal Expenditures	Amount Provided to Subrecipients
<b>U.S. Department of Health and Human Services (Continued)</b>				
HIV Prevention Activities - Health Department Based	266	94.940	\$ 1,420,854	\$ 447,923
HIV / AIDS Surveillance	272	93.944	186,439	--
Assistance Programs for Chronic Disease Prevention and Control	647, 648	93.945	384,918	384,918
Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	319	93.946	146,581	--
Block Grants for Community Mental Health Services	30202, 31202, 32202	93.958	1,224,796	341,133
Block Grants for Prevention and Treatment of Substance Abuse	31204, 32204	93.959	8,028,787 *	7,617,291
Prevention Health Services - Sexually Transmitted Diseases Control Grants	268	93.977	391,783	--
Preventative Health and Health Services Block Grant	30203, 31203, 32203	93.991	434,387	3,333
Maternal and Child Health Services Block Grant	31201, 32201, 33201	93.994	1,748,467	22,701
Hawaii Tobacco State Enforcement Contract	633	93.FAR 52.217-9	186,498	90,224
Special Project of National Significance	651	93.928	96,800	--
Total Department of Health and Human Services			<u>73,822,418</u>	<u>30,615,760</u>
<b>U.S. Department of Agriculture</b>				
Direct Program				
Food Safety Cooperative Agreements	203	10.479	125,003	--
Special Supplemental Nutrition Program for Women, Infants and Children	275, 295	10.557	31,818,727 *	2,717,862
ARRA- WIC Grants to States	587	10.578	12,152	--
Total Department of Agriculture			<u>31,955,882</u>	<u>2,717,862</u>
<b>Environmental Protection Agency</b>				
Direct Program				
Air Pollution Control Program Support	233	66.001	781,065	--
Surveys, Studies, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	294	66.034	81,562	--
State Clean Diesel Grant Program	328	66.040	138,877	131,417
Water Pollution Control State, Interstate, and Tribal Program Support	231, 237, 601	66.419	1,940,526	177,524
State Public Water System Supervision	232	66.432	479,948	--
Water Quality Management Program	15284, 16284	66.454	100,089	--

\* Denotes Major Federal Program

The accompanying notes are an integral part of this schedule.

**Department of Health  
State of Hawaii  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)  
Fiscal Year Ended June 30, 2014**

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Project Number	Federal CFDA Number	Federal Expenditures	Amount Provided to Subrecipients
<b>Environmental Protection Agency (Continued)</b>				
Capitalization Grants for Clean Water State Revolving Funds	various	66.458	\$ 8,071,785	\$ 7,514,491
ARRA - Capitalization Grants for Clean Water State Revolving Funds	483	66.458	<u>290,208</u>	<u>290,208</u>
Subtotal Capitalization Grants for Clean Water State Revolving Funds			8,361,993 *	7,804,699
Nonpoint Source Implementation Grants	8290, 9290	66.460	1,037,370	564,936
Capitalization Grants for Drinking Water State Revolving Funds	various	66.468	21,830,752 *	20,628,395
Beach Monitoring and Notification Program	8291	66.472	277,157	--
Environmental Information Exchange Grant Program	395, 570	66.608	264,393	--
Toxic Substances Compliance Monitoring Cooperative Agreements	243	66.701	155,234	--
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	330	66.707	222,235	--
Hazardous Waste Management State Program Support	230	66.801	517,172	--
Superfund State Site Specific Cooperative Agreements	394	66.802	284,841	--
State Underground Storage Tanks Program	339	66.804	165,774	--
Leaking Underground Storage Tank Trust Fund				
Corrective Action Program	258	66.805	575,106	--
State and Tribal Response Program Grants	360	66.817	<u>1,185,037</u>	<u>--</u>
Subtotal Direct Programs			<u>38,399,131</u>	<u>29,306,971</u>
Pass-through from the National Oceanic and Atmospheric Administration				
Marine Debris Removal and Restoration	645	66.UNKNOWN	<u>250,000</u>	<u>--</u>
Subtotal Pass-through Programs			<u>250,000</u>	<u>--</u>
Total Environmental Protection Agency			<u>38,649,131</u>	<u>29,306,971</u>
<b>U.S. Department of Education</b>				
Direct Program				
Special Education - Grants for Infants and Families	213	84.181A	<u>1,717,191</u>	<u>250,000</u>
Total Department of Education			<u>1,717,191</u>	<u>250,000</u>
<b>U.S. Department of Commerce</b>				
Direct Program				
Habitat Conservation	643	11.463	<u>19,450</u>	<u>19,450</u>
Total Department of Commerce			<u>19,450</u>	<u>19,450</u>

\* Denotes Major Federal Program

The accompanying notes are an integral part of this schedule.

**Department of Health  
State of Hawaii  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)  
Fiscal Year Ended June 30, 2014**

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Project Number</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>	<u>Amount Provided to Subrecipients</u>
<b>U.S. Department of Defense</b>				
Direct Program				
State Memorandum of Agreement Program for the Reimbursement of Technical Services	245	12.113	\$ <u>316,211</u>	\$ <u>--</u>
Total Department of Defense			<u>316,211</u>	<u>--</u>
<b>U.S. Department of Justice</b>				
Direct Program				
Enforcing Underage Drinking Laws Program	458	16.727	<u>292,050</u>	<u>292,382</u>
Total Department of Justice			<u>292,050</u>	<u>292,382</u>
<b>U.S. Department of Transportation</b>				
Pass-through from the State Department of Transportation				
Hazardous Materials Public Sector Training and Planning Grants	641	20.703	<u>127,135</u>	<u>--</u>
Total Department of Transportation			<u>127,135</u>	<u>--</u>
Total Expenditures of Federal Awards			\$ <u>146,899,468</u>	\$ <u>63,202,425</u>

\* Denotes Major Federal Program

The accompanying notes are an integral part of this schedule.

**Department of Health  
State of Hawaii  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Fiscal Year Ended June 30, 2014**

**NOTE A - 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 which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. 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.

**NOTE B - LOANS OUTSTANDING**

The Department had the following loan balances outstanding at June 30, 2014. Loans made during the year are included in the federal expenditures presented in the schedule of expenditures of federal awards.

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amount Outstanding</u>
Capitalization Grants for Clean Water State Revolving Funds	66.458	\$ 23,600,680
Capitalization Grants for Drinking Water State Revolving Funds	66.468	\$ 25,234,725

**NOTE C - NONCASH AWARDS**

The Department also receives noncash awards for the Immunization Cooperative Agreements Program. The Department expended approximately \$14,092,000 in vaccines for the Immunization Cooperative Agreements Program for the fiscal year ended June 30, 2014.

## **PART II**

### **REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS**

**REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

**INDEPENDENT AUDITOR'S REPORT**

To 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 (Department) as of and for the fiscal year ended June 30, 2014, 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 11, 2015.

**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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as Finding Nos. 2014-001 to 2014-003 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*.

### **Department's Response to Findings**

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

### **Purpose of this Report**

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

N&K CPAs, Inc.

Honolulu, Hawaii  
March 11, 2015

### **PART III**

#### **REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE**



**REPORT ON COMPLIANCE FOR EACH  
MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

**INDEPENDENT AUDITOR'S REPORT**

To the Auditor  
State of Hawaii

**Report on Compliance for Each Major Federal Program**

We have audited the State of Hawaii, Department of Health's (Department) compliance with the types of compliance requirements described in the *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 fiscal year ended June 30, 2014. The Department's major federal programs are identified in the summary of auditor's 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.

**Auditor's 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 Opinion on Major Federal Programs**

As described in Finding No. 2014-004, 2014-005, and 2014-006 in the accompanying schedule of findings and questioned costs, the Department did not comply with requirements regarding:

<b>CFDA Number</b>	<b>Name of Federal Program</b>	<b>Compliance Requirement</b>	<b>Ref. No.</b>
93.044 93.045 93.053	Aging Cluster	Cash Management	2014-004
93.069	Public Health Emergency Preparedness	Cash Management	2014-004
93.268	Immunization Cooperative Agreements	Cash Management	2014-004
93.275	Substance Abuse and Mental Health Services - Access to Recovery	Cash Management	2014-004
93.275	Substance Abuse and Mental Health Services - Access to Recovery	Subrecipient Monitoring	2014-005
93.505	Affordable Care Act - Maternal, Infant, and Early Childhood Home Visiting Program	Cash Management	2014-004
93.505	Affordable Care Act - Maternal, Infant, and Early Childhood Home Visiting Program	Allowable Costs/ Cost Principles	2014-006
93.959	Block Grants for Prevention and Treatment of Substance Abuse	Cash Management	2014-004

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

### **Qualified Opinion on the Major Programs**

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion 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 in the Basis for Qualified Opinion on Major Federal Programs paragraph for the fiscal year ended June 30, 2014.

### **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 auditor's results section of the accompanying schedule of findings and questioned costs for the fiscal year ended June 30, 2014.

### **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 No. 2014-006 to 2014-011. Our opinion on each major federal program is not modified with respect to these matters.

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

### **Report on Internal Control Over Compliance**

Management of the 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 Department'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 No. 2014-004, 2014-005 and 2014-006 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 deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding No. 2014-007 to 2014-011 to be significant deficiencies.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

N&K CPAs, Inc.

Honolulu, Hawaii  
March 11, 2015

**PART IV**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**Department of Health  
State of Hawaii  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 30, 2014**

**SECTION I - SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? ☐ yes ☒ no

Significant deficiency(ies) identified? ☒ yes ☐ none reported

Noncompliance material to the financial statements noted? ☐ yes ☒ no

**Federal Awards**

Internal control over major program:

Material weakness(es) identified? ☒ yes ☐ no

Significant deficiency(ies) identified? ☒ yes ☐ none reported

Type of auditor's report issued on compliance for major programs: Qualified except for CFDA No: 10.557, 66.458 and 66.468

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? ☒ yes ☐ no

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
	<b>U.S. Department of Health &amp; Human Services</b>
	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
93.268	Immunization Cooperative Agreements
93.275	Substance Abuse and Mental Health Services - Access to Recovery
93.505	Affordable Care Act - Maternal, Infant, and Early Childhood Home Visiting Program
93.959	Block Grants for Prevention and Treatment of Substance Abuse
	<b>U.S. Department of Agriculture</b>
10.557	Special Supplemental Nutrition Program for Women, Infants and Children

**Department of Health  
State of Hawaii  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
Fiscal Year Ended June 30, 2014**

**SECTION I - SUMMARY OF AUDITOR'S RESULTS (Continued)**

<u>CFDA Number</u>	<u>Name of Federal Program</u>
	<b>U.S. Environmental Protection Agency</b>
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

Dollar threshold used to distinguish between Type A  
and Type B programs: \$3,000,000

Auditee qualified as a low-risk auditee? ☐ yes ☒ no

**Department of Health  
State of Hawaii  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
Fiscal Year Ended June 30, 2014**

**SECTION II - FINANCIAL STATEMENT FINDINGS**

**Ref.  
No.**

**Internal Control Findings**

**2014-001 Department of Human Services Transactions (Significant Deficiency)**

**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.”*

**Condition, 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. We noted that during the year AMHD billings to DHS for services were billed up to a year later than the date the services were provided. Subsequent to implementing the corrective action plan for finding 2013-001, the Department was able to process their billings more timely.

**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.



**Department of Health  
State of Hawaii  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
Fiscal Year Ended June 30, 2014**

**SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)**

**Ref.**

**No.**

**Internal Control Findings (Continued)**

**2014-002 Reliance on Third Party Certifications (Significant Deficiency)**

**Criteria:** Section 342G-1 05, 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-1 19, 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.

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-1 21, 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.

**Condition, Cause and Effect:** The Deposit Beverage Container Program (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

**Department of Health  
State of Hawaii  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
Fiscal Year Ended June 30, 2014**

**SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)**

**Ref.**

**No.**

**Internal Control Findings (Continued)**

**2014-002 Reliance on Third Party Certifications (Significant Deficiency)**

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.

**Recommendation:** We recommend that the Program implement a systematic process and direct 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.

**Department of Health  
State of Hawaii  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
Fiscal Year Ended June 30, 2014**

**SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)**

**Ref.**

**No.**

**Internal Control Findings (Continued)**

**2014-003 Schedule of Expenditures of Federal Awards (Significant Deficiency)**

**Criteria:** OMB Circular A-133 Section 300 states:

The auditee shall:

- (a) Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal awards identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass through entity.
- (b) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with Section 310.

**Condition and Cause and Effect:** The Department's schedule of expenditures of Federal awards is prepared based on information provided by various Department program personnel. Information on the schedule of expenditures of federal awards is reviewed by personnel in its administrative services office.

The Department's original schedule of expenditures of Federal awards contained the following error:

- Expenditures from two different CFDA awards (CFDA 93.283 and 93.919) into one award (CFDA 93.283). The expenditures for this project code needed to be further segregated by cost center. This information was provided by the division subsequent to the original schedule of expenditures of federal awards.

The original CFDA total for 93.283 was \$3,154,794. The revised total was \$2,093,184. In addition an additional CFDA 93.919 with expenditures of \$1,061,610 was reported.

**Recommendation:** Department personnel should exercise greater care in the preparation and review of its schedule of expenditures of Federal awards,.

**Department of Health  
State of Hawaii  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
Fiscal Year Ended June 30, 2014**

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

<b>Ref. No.</b>	<b>Compliance and Internal Control Findings</b>	<b>Questioned Costs</b>
<b>2014-004</b>	<b>Cash Management (Material Weakness)</b>	
	<b>Federal agency:</b> Department of Health and Human Services (DHHS)	
	<b>CFDA No.:</b> 93.044, 93.045, 93.053, 93.069, 93.268, 93.275, 93.505 and 93.959	
	<b>Programs:</b> Aging Cluster Special Programs for Aging - Title III Part B - Grants for Supportive Services and Senior Centers; Special Programs for Aging - Title III Part C - Nutrition Services; Nutrition Services Incentive Program; Public Health Emergency Preparedness; Immunization Cooperative Agreements; Substance Abuse and Mental Health Services - Access to Recovery; Affordable Care Act - Maternal, Infant, and Early Childhood Home Visiting Program; Block Grants for Prevention and Treatment of Substance Abuse	
<b>Federal award no. and Year</b>	13AAHIT3SP	10/01/2012 - 09/30/2013
	14AAHIT3SS	10/01/2013 - 09/30/2014
	14AAHIT3CM	10/01/2013 - 09/30/2014
	14AAHIT3HD	10/01/2013 - 09/30/2014
	14AAHIT3PH	10/01/2013 - 09/30/2014
	14AAHIT3FC	10/01/2013 - 09/30/2014
	13AAHIT7SP	10/01/2012 - 09/30/2013
	14AAHIT7EA	10/01/2013 - 09/30/2014
	14AAHIT7OM	10/01/2013 - 09/30/2014
	13AAHINSIP	10/01/2012 - 09/30/2013
	14AAHINSIP	10/01/2013 - 09/30/2014
	5U90TP00513-02	07/01/2013 - 06/30/2014
	1U90TP000513-01	07/01/2013 - 06/30/2014
	5H23IP000721-02	01/01/2014 - 12/31/2014
	1H23IP000721-01	01/01/2013 - 12/31/2013

**Department of Health  
State of Hawaii  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
Fiscal Year Ended June 30, 2014**

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

<b>Ref. <u>No.</u></b>	<b>Compliance and Internal Control Findings (Continued)</b>	<b><u>Questioned Costs</u></b>
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**2014-004 Cash Management (Material Weakness) (Continued)**

<b>Federal award</b>	1H79TI023123-01	09/30/2010 - 09/29/2011
<b>no. and Year:</b>	5H79TI023123-03	09/30/2012 - 09/29/2013
	5H79TI023123-04	09/30/2013 - 01/31/2015
	4D89MC23157	09/30/2012 - 09/30/2014
	1 X02MC26315-01-00	09/01/2013 - 09/30/2015
	6 D89MC23157-01-03	09/30/2011 - 09/29/2012
	6 X02MC23128-01-07	09/30/2011 - 09/29/2014
	3B08TI010015-12S1	10/01/2011 - 09/30/2013
	2B08TI010015-13	10/01/2012 - 09/30/2014
	3B08TI010015-13S1	10/01/2012 - 09/30/2014
	3B08TI010015-13S2	10/01/2012 - 09/30/2014

**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...”

**Condition:** 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 federal award programs identified above after the Department drew down the funds, in accordance with 31 CFR 205.

Department of Health  
State of Hawaii  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
Fiscal Year Ended June 30, 2014

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

Ref. <u>No.</u>	Compliance and Internal Control Findings (Continued)	<u>Questioned Costs</u>
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2014-004 Cash Management (Material Weakness) (Continued)

**Cause:** 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 31 CFR 205, and we could not verify compliance with 31 CFR 205.

**Effect:** 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.

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**Recommendation:** We recommend that the Department work with DAGS and B&F to ensure timely disbursement of federal funds in accordance with 31 CFR 205.

Department of Health  
State of Hawaii  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**  
Fiscal Year Ended June 30, 2014

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

<b>Ref. <u>No.</u></b>	<b>Compliance and Internal Control Findings (Continued)</b>	<b><u>Questioned Costs</u></b>
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**2014-005 Subrecipient Monitoring (Material Weakness)**

**Federal agency:** Department of Health and Human Services (DHHS)

**CFDA No.:** 93.275

**Program:** Substance Abuse and Mental Health Services -  
Access to Recovery (ATR)

<b>Federal award</b>	1H79TI023123-01	09/30/2010 - 09/29/2011
<b>no. and Year</b>	5H79TI023123-03	09/30/2012 - 09/29/2013
	5H79TI023123-04	09/30/2013 - 01/31/2015

**Criteria:** In accordance with OMB Circular A-133 Section 400(d), we noted that the pass-through entity is responsible for monitoring the subrecipient's use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. The pass-through entity must also 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.

**Condition:** During our testing of the subrecipient monitoring compliance requirement, we noted that the ATR program did not perform monitoring of its subrecipients during fiscal year 2014.

We also noted that the program did not obtain audit reports in accordance with OMB Circular A-133 for the subrecipient's fiscal year ended June 30, 2014 and 2013.

**Cause:** Per inquiry with program personnel, the ATR program was understaffed for fiscal year 2014 and was unable to conduct subrecipient monitoring.

**Department of Health  
State of Hawaii  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
Fiscal Year Ended June 30, 2014**

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

<b>Ref. <u>No.</u></b>	<b>Compliance and Internal Control Findings (Continued)</b>	<b>Questioned <u>Costs</u></b>
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**2014-005 Subrecipient Monitoring (Material Weakness) (Continued)**

**Effect:** 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.

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**Recommendation:** We recommend that the program ensure timely monitoring on a regular basis. The program should 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.



**Department of Health  
State of Hawaii  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
Fiscal Year Ended June 30, 2014**

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

<b>Ref. <u>No.</u></b>	<b>Compliance and Internal Control Findings (Continued)</b>	<b><u>Questioned Costs</u></b>
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**2014-006 Allowable Costs/Cost Principles - Payroll (Material Weakness)**

<b>Federal agency:</b>	Department of Health and Human Services (DHHS)	
<b>CFDA No.:</b>	93.505 93.959	
<b>Program:</b>	Affordable Care Act Maternal, Infant, and Early Childhood Home Visiting Program (MIECHVP) Block Grants for Prevention and Treatment of Substance Abuse (SAPT)	
<b>Federal award no. and Year:</b>	4 D89MC23157	09/30/2012 - 09/30/2014
	1 X02MC26315-01-00	09/01/2013 - 09/30/2015
	6 D89MC23157-01-03	09/30/2011 - 09/29/2012
	6 X02MC23128-01-07	09/30/2011 - 09/29/2014
	3B08TI010015-12S1	10/01/2011 - 09/30/2013
	2B08TI010015-13	10/01/2012 - 09/30/2014
	3B08TI010015-13S1	10/01/2012 - 09/30/2014
	3B08TI010015-13S2	10/01/2012 - 09/30/2014

**Criteria:** In accordance with OMB Circular A-87, compensation for personnel services includes all remuneration, paid currently or accrued, for services rendered during the period of performance under federal awards, including but not necessarily limited to wages, salaries, and fringe benefits. The costs of such compensation are allowable to the extent that they satisfy the specific requirements of this Circular.

In accordance with this Circular, where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program or the period covered by the certification.

These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee. Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards unless a statistical sampling system or other substitute system has been approved by the cognizant Federal agency.

Department of Health  
State of Hawaii  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**  
Fiscal Year Ended June 30, 2014

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

<u>Ref.</u> <u>No.</u>	Compliance and Internal Control Findings (Continued)	<u>Questioned</u> <u>Costs</u>
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**2014-006 Allowable Costs/Cost Principles - Payroll (Material Weakness)  
(Continued)**

**Condition:** During our testing of payroll for the allowable costs compliance requirement for the MIECHVP program, we noted that the program had employees that spent 100% of their time on the grant but did not obtain semi-annual certifications signed by the employees or their supervisors confirming that they worked solely on grant related activities in accordance with OMB Circular A-87 guidelines for payroll.

The MIECHVP program did not prepare personnel activity reports for employees who worked on multiple federal awards, activities, or cost objectives.

One employee in the SAPT program was charged 100% to the SAPT program but completed two semi-annual certification indicating 5% of their time was spent on the SAPT program.

**Cause:** Policies and procedures were not in place to ensure that adequate documentation was maintained to confirm that the time allocated to the program for these employees were periodically reviewed by the employees and their supervisors.

**Effect:** There was no documentation maintained to confirm the time allocated to the program for employees.

CFDA No. 93.505	\$	483,900
CFDA No. 93.959		<u>40,025</u>
	\$	<u>523,925</u>

**Recommendation:** The Department should obtain semi-annual certifications from all employees that spend 100% of their time on federally funded grants, confirming that they worked solely on grant related activities. The certification should be signed by both the employees and their supervisors.

The Department should also obtain personnel activity or reports or equivalent document from all employees that work on multiple federal awards, activities, or cost objective, to support their distribution of their salaries or wages.

**Department of Health  
State of Hawaii  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
Fiscal Year Ended June 30, 2014**

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

<b>Ref. <u>No.</u></b>	<b>Compliance and Internal Control Findings (Continued)</b>	<b>Questioned <u>Costs</u></b>
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**2014-007 Reporting (Significant Deficiency)**

**Federal agency:** Department of Health and Human Services (DHHS)  
Environmental Protection Agency (EPA)

**CFDA No.:** 93.505 and 66.458

**Programs:** Affordable Care Act Maternal, Infant, and Early  
Childhood Home Visiting Program (MIECHV)  
Capitalization Grants for Clean Water State  
Revolving Funds (CWSRF)

<b>Federal award</b>	4 D89MC23157	09/30/2012 - 09/30/2014
<b>no. and Year:</b>	1 X02MC26315-01-00	09/01/2013 - 09/30/2015
	6 D89MC23157-01-03	09/30/2011 - 09/29/2012
	6 X02MC23128-01-07	09/30/2011 - 09/29/2014
	FS-15000114-0	09/30/2013 - 06/30/2020

**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.

**Condition and Cause:** 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 MIECHV program during the state fiscal year 2014 due to a lack of established policies and procedures over this requirement.

**Department of Health  
State of Hawaii  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
Fiscal Year Ended June 30, 2014**

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

<b>Ref. <u>No.</u></b>	<b>Compliance and Internal Control Findings (Continued)</b>	<b><u>Questioned Costs</u></b>
<b>2014-007</b>	<b>Reporting (Significant Deficiency) (Continued)</b>	
	<ul style="list-style-type: none"><li>CWSRF did not meet the deadline for submission of the report under FFATA for subrecipient awards made from its fiscal year 2014 federal award. CWSRF did not establish adequate policies and procedures to ensure compliance with FFATA reporting requirements.</li></ul>	
	<p><b>Effect:</b> 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.</p>	\$ <u>          --          </u>
	<p><b>Recommendation:</b> 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.</p>	

**Department of Health  
State of Hawaii  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
Fiscal Year Ended June 30, 2014**

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

<b>Ref. <u>No.</u></b>	<b>Compliance and Internal Control Findings (Continued)</b>	<b><u>Questioned Costs</u></b>
<b>2014-008</b>	<b>Allowable Costs/Cost Principles - Fringe Benefits (Significant Deficiency)</b>	
	<b>Federal agency:</b> Department of Health and Human Services (DHHS) Department of Agriculture	
	<b>CFDA No.:</b> 93.044, 93.045, 93.069, 93.268, 93.275, 93.505 and 10.577	
	<b>Program:</b> Aging Cluster Special Programs for Aging - Title III Part B - Grants for Supportive Services and Senior Centers; Special Programs for Aging - Title III Part C - Nutrition Services Public Health Emergency Preparedness Substance Abuse and Mental Health Services - Access to Recovery Affordable Care Act Maternal, Infant, and Early Childhood Home Visiting Program (MIECHVP) Special Supplemental Nutrition Program for Women, Infants and Children	
	<b>Federal award no. and Year:</b>	
	13AAHIT3SP	10/01/2012 - 09/30/2013
	13AAHIT7SP	10/01/2012 - 09/30/2013
	14AAHIT3SS	10/01/2013 - 09/30/2014
	14AAHIT3CM	10/01/2013 - 09/30/2014
	14AAHIT3HD	10/01/2013 - 09/30/2014
	14AAHIT3PH	10/01/2013 - 09/30/2014
	14AAHIT3FC	10/01/2013 - 09/30/2014
	14AAHIT7EA	10/01/2013 - 09/30/2014
	14AAHIT7OM	10/01/2013 - 09/30/2014
	1U90TP000513-01	07/01/2012 - 06/30/2013
	5U90TP000513-02	07/01/2013 - 06/30/2014
	1H23IP000721-01	01/01/2013 - 12/31/2013
	5H23IP000721-02	01/01/2014 - 12/31/2014

**Department of Health  
State of Hawaii  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
Fiscal Year Ended June 30, 2014**

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

<b>Ref. No.</b>	<b>Compliance and Internal Control Findings (Continued)</b>	<b><u>Questioned Costs</u></b>
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**2014-008 Allowable Costs/Cost Principles - Fringe Benefits (Significant Deficiency)**

<b>Federal award no. and Year:</b>	1H79TI023123-01	09/30/2010 - 09/29/2011
	5H79TI023123-03	09/30/2012 - 09/29/2013
	5H79TI023123-04	09/30/2013 - 01/31/2015
	4 D89MC23157	09/30/2012 - 09/30/2014
	1 X02MC26315-01-00	09/01/2013 - 09/30/2015
	6 D89MC23157-01-03	09/30/2011 - 09/29/2012
	6 X02MC23128-01-07	09/30/2011 - 09/29/2014
	7HI700HI1 AMD 3	10/01/2010 - 09/30/2012
	7HI700HI7 AMD 6	10/01/2012 - 09/30/2013
	7HI700HI7 AMD 9	10/01/2013 - 09/30/2014

**Criteria:** In accordance with OMB Circular A-87, "when a governmental unit uses the cash basis of accounting, the cost of leave is recognized in the period that the leave is taken and paid for. Payments for unused leave when an employee retires or terminates employment are allowable in the year of payment provided they are allocated as a general administrative expense to all activities of the governmental unit or component."

**Condition:** During our testing of payroll for the MIECHVP program, we noted the payout for an employee's leave that had accrued through their termination was charged entirely to the MIECHVP award.

**Cause:** Based on further inquiry with Department personnel, we noted that payments for accrued leave for terminated employees are charged as direct costs to the employees' respective program(s).

**Effect:** Unallowable costs were charged to the federal programs.

CFDA No. 93.044 and 93.045	\$	13,180
CFDA No. 93.069		57,720
CFDA No. 93.275		13,129
CFDA No. 93.505		11,036
CFDA No. 10.557		<u>21,067</u>
	\$	<u>116,132</u>

**Department of Health  
State of Hawaii  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
Fiscal Year Ended June 30, 2014**

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

<b>Ref. <u>No.</u></b>	<b>Compliance and Internal Control Findings (Continued)</b>	<b>Questioned <u>Costs</u></b>
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<b>2014-008</b>	<b>Allowable Costs/Cost Principles - Fringe Benefits (Significant Deficiency) (Continued)</b>	
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**Recommendation:** The Department should review and correct its payout process for accrued leave to prevent future errors.

**Department of Health  
State of Hawaii  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
Fiscal Year Ended June 30, 2014**

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

<b>Ref. <u>No.</u></b>	<b>Compliance and Internal Control Findings (Continued)</b>	<b><u>Questioned Costs</u></b>
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**2014-009 Matching, Level of Effort, Earmarking (Significant Deficiency)**

**Federal agency:** Department of Health and Human Services  
(DHHS)

**CFDA No.:** 93.069

**Program:** Public Health Emergency Preparedness (PHEP)

<b>Federal award</b>	5U90TP000513-02	07/01/2013 - 06/30/2014
<b>no. and Year:</b>	1U90TP000513-01	07/01/2012 - 06/30/2013

**Criteria:** PHEP is required to provide a match of contributions of 10% of federal awards. Matching may be in the form of allowable costs incurred or in-kind contributions. Matching may be provided directly or through donations from public or private entities and may be in cash or in-kind donation. Amounts provided by the federal government, or services assisted or subsidized to any significant extent by the federal government, may not be included in determining the amount. The program should complete records to corroborate that the values placed on in-kind contributions in accordance with OMB Circular A-87, program regulations, and terms of the award.

**Condition:** During our testing of in-kind match for volunteer hours, we noted the following:

- 20 instances where the pay rate used to calculate match was for a period subsequent to the date of the event.
- 3 instances where documentation to support the matching amount was not provided.
- No secondary reviews of match calculations were performed.

**Cause:** PHEP does not have policies and procedures to ensure that matching requirements are met.

**Effect:** We were unable to determine whether the support for the matching amount was accurate.

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**Department of Health  
State of Hawaii  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
Fiscal Year Ended June 30, 2014**

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

<b>Ref. <u>No.</u></b>	<b>Compliance and Internal Control Findings (Continued)</b>	<b>Questioned <u>Costs</u></b>
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<b>2014-009</b>	<b>Matching, Level of Effort, Earmarking (Significant Deficiency) (Continued)</b>	
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**Recommendation:** PHEP personnel should develop policies and procedures to ensure the match is calculated properly and records are maintained. PHEP should also consider having a secondary review to ensure in-kind matching for volunteer service is calculated correctly.

Department of Health  
State of Hawaii  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
Fiscal Year Ended June 30, 2014

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

<u>Ref.</u> <u>No.</u>	Compliance and Internal Control Findings (Continued)	<u>Questioned</u> <u>Costs</u>
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2014-010 Reporting (Significant Deficiency)

**Federal agency:** Environmental Protection Agency (EPA)

**CFDA No.:** 66.458

**Program:** Capitalization Grants for Clean Water State  
Revolving Funds (CWSRF)

**Federal award no. and Year:** FS-15000209-0                      10/1/2008 - 6/30/2014

**Criteria:** In accordance with reporting and registration requirements under Section 1512 of the American Recovery and Reinvestment Act of 2009 (ARRA), Public Law 111-5, the Fund is required to report no later than ten calendar days after each calendar quarter in which the Fund receives the assistance award funded in whole or in part by the Recovery Act on the use of funds provided.

**Condition:** During our testing of the reporting compliance requirement, we noted that the Fund did not meet the deadline for submission of reports under Section 1512 of the American Recovery and Reinvestment Act of 2009, Public Law 111-5.

**Cause:** CWSRF personnel did not establish adequate policies and procedures to ensure compliance with ARRA reporting requirements.

**Effect:** Noncompliance with ARRA reporting requirements reduces transparency of federal awards and could result in sanctions by the EPA including increased oversight and/or reduction or elimination of federal awards.

\$                   --

**Recommendation:** We recommend that the CWSRF implement policies and procedures to ensure reports are submitted in a timely matter for applicable ARRA awards.

**Department of Health  
State of Hawaii  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
Fiscal Year Ended June 30, 2014**

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

<b>Ref. <u>No.</u></b>	<b>Compliance and Internal Control Findings (Continued)</b>	<b>Questioned <u>Costs</u></b>
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**2014-011 Special Tests (Significant Deficiency)**

**Federal agency:** Department of Health and Human Services (DHHS)

**CFDA No.:** 93.268

**Program:** Immunization Cooperative Agreements

<b>Federal award</b>	5H23IP000721-02	01/01/2014 - 12/31/2014
<b>no. and Year:</b>	1H23IP000721-01	01/01/2013 - 12/31/2013

**Criteria:** The 2014 Vaccines for Children (VFC) Operations Guide by the Center for Disease Control Module 3 - Quality Assurance and Program Accountability states:

Awardees must maintain written policies and protocols on:

1. Identifying and selecting providers who should receive a VFC compliance site visit.
2. Scheduling VFC compliance site visits.
3. Preparing for VFC compliance site visits.
4. Conducting VFC compliance site visits
5. Documenting, reviewing, and reporting results of VFC compliance site visits.

All enrolled and active VFC providers must receive a VFC compliance site visit every other year.

**Condition:** The Department does not have written procedures for overseeing program-enrolled providers that allows for sampling of provider's inventory records and assessment of storage procedures every other year. The Department did not perform a compliance site visit for three out of over 200 VFC service providers for two consecutive years.

**Cause:** The Department has been utilizing the 2014 Vaccines for Children Operations Guide by the Center for Disease Control as their written policies and protocols. Although the Department has procedures to ensure that VFC providers receive a VFC compliance site visit every other year, monitoring of these procedures was not performed.

**Department of Health**  
**State of Hawaii**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**  
**Fiscal Year Ended June 30, 2014**

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

<b>Ref. <u>No.</u></b>	<b>Compliance and Internal Control Findings (Continued)</b>	<b><u>Questioned Costs</u></b>
<b>2014-011</b>	<b>Special Tests (Significant Deficiency) (Continued)</b>	
	<p><b>Effect:</b> Noncompliance with special tests of the grant could result in sanctions by DHHS including increased oversight and/or reduction or elimination of federal awards.</p>	\$ <u>          --</u>
	<p><b>Recommendation:</b> We recommend that the Department develop written policies and protocols for overseeing program-enrolled providers. In developing their written policies and protocols, the Department should use the 2014 Vaccines for Children Operations Guide by the Center for Disease Control as a resource. The Department should ensure that monitoring procedures are performed to ensure that VFC providers receive a VFC compliance site visit every other year.</p>	

**PART V**  
**PRIOR YEAR FINDINGS AND QUESTIONED COSTS**

**Department of Health  
State of Hawaii  
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 30, 2014**

This section contains the current status of prior audit recommendations. The recommendations are referenced to the pages of the previous audit report for the fiscal year ended June 30, 2013, dated March 13, 2014.

**SECTION II - FINANCIAL STATEMENT FINDINGS**

<b>Recommendations</b>		<b>Status</b>
<b>2013-001</b>	<b>Department of Human Service Transactions</b> (page 51)  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.	Not accomplished. Refer to finding 2014-001.
<b>2013-002</b>	<b>Reliance on Third Party Certifications</b> (pages 52-53)  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.	Not accomplished. Refer to finding 2014-002.

**Department of Health  
State of Hawaii  
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (Continued)  
Fiscal Year Ended June 30, 2014**

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

<b>Recommendations</b>	<b>Status</b>
<p><b>2013-003    Cash Management</b> (pages 54-55)</p> <p>We recommend that the Department work with DAGS and B&amp;F to ensure timely disbursement of federal funds in accordance with the CMIA.</p>	<p>Not accomplished. Refer to finding 2014-004.</p>
<p><b>2013-004    Period of Availability</b> (pages 56-57)</p> <p>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.</p>	<p>Not accomplished. Revised procedures are being implemented to ensure that obligations incurred are liquidated within the applicable disbursement deadline stated in the award document.</p>
<p><b>2013-005    Reporting</b> (pages 58-59)</p> <p>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.</p>	<p>Not accomplished. Refer to finding 2014-007.</p>
<p><b>2013-006    Subrecipient Monitoring</b> (page 60)</p> <p>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.</p>	<p>Accomplished. No similar instances noted in the current year.</p>
<p><b>2013-007    Suspension and Debarment Check</b> (page 61)</p> <p>We recommend that the programs designate individuals to ensure a verification check is performed and proper documentation of the verification is maintained.</p>	<p>Accomplished. No similar instances noted in the current year.</p>

**Department of Health  
State of Hawaii  
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (Continued)  
Fiscal Year Ended June 30, 2014**

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

<b>Recommendations</b>	<b>Status</b>
<b>2013-008   Earmarking</b> (page 62)  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.	Accomplished. No similar instances noted in the current year.



**PART IV**  
**CORRECTIVE ACTION PLAN**

DAVID Y. IGE  
GOVERNOR OF HAWAII



VIRGINIA PRESSLER, M.D.  
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/15-243

March 11, 2015

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 2014.

We appreciate the opportunity to comment on the audit report.

Sincerely,

A handwritten signature in cursive script that reads "Virginia Pressler".

Virginia Pressler, M.D.  
Director of Health

Enclosure

## **II. Financial Statement Findings**

### **Finding No. 2014-001: 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. We noted that during the year AMHD billings to DHS for services were billed up to a year later than the date the services were provided. 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. Subsequent to implementing the corrective action plan for finding 2013-001, the Department was able to process their billings more timely.

#### **Corrective Action Plan**

AMHD will continue to strive to submit billings to DHS on a timely basis. Billings from contracted providers need to be received, adjudicated, and paid before corresponding billings can be transmitted to DHS.

#### **Person Responsible**

AMHD Public Health Administrative Officer VI and Chief Information Officer

#### **Anticipated Date of Completion**

June 30, 2015

## **II. Financial Statement Findings**

### **Finding No. 2014-002: Reliance on Third Party Certifications (Significant Deficiency)**

#### **Finding and Cause and Effect**

The Deposit Beverage Container Program (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 has already taken action towards a solution that will eventually provide a systematic process for verifying the contents of reports and claims submitted by distributors and certified redemption centers respectively. Three new accounting staff positions (two accountants and one account clerk) were authorized for the Office of Solid Waste Management (OSWM) under Act 122/SLH 2014. The OSWM intends to utilize these positions to support an internal auditing program to verify the contents of reports and claims submitted to the Program. The three new positions are in the process of being established. A solicitation to procure an auditing firm to assist in the development of an auditing program is currently being developed.

#### **Person Responsible**

Solid Waste Management Coordinator, OSWM, Solid and Hazardous Waste Branch

#### **Anticipated Date of Completion**

June 30, 2016

## **II. Financial Statement Findings**

### **Finding No. 2014-003: Schedule of Expenditures of Federal Awards (Significant Deficiency)**

#### **Finding and Cause and Effect**

The Department's schedule of expenditures of federal awards is prepared based on information provided by various Department personnel. Information on the schedule of expenditures of federal awards is reviewed by personnel in its administrative office.

The Department's schedule of expenditures of federal awards contained the following errors:

Expenditures from two different CFDA awards (CFDA 93.283 and 93.919) into one award (CFDA 93.283). The expenditures for this project code needed to be further segregated by cost center.

The original CFDA total of 93.283 was \$3,154,794. The revised total was \$2,093,184. In addition and additional CFDA 93.919 with expenditures of \$1,061,610 was reported.

#### **Corrective Action Plan**

In the past, the Department has been providing the SEFA information by project number (Department internal reference number to individual grant award). Moving forward, the Department will ensure that the schedule of expenditures provided to auditors for review will be further broken down by CFDA and not by grant award.

#### **Person Responsible**

Administrative Services Office – Fiscal Officer  
Fiscal Coordinator, Chronic Disease Prevention and Health Promotion Division

#### **Anticipated Date of Completion**

June 2016

### **III. Federal Awards Findings and Questioned Costs**

#### **Finding No. 2014-004: Cash Management (Material Weakness)**

##### **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 federal award programs identified above after the Department drew down the funds, in accordance with Guidance 31 CFE 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 on the vouchers processed daily. However, since deposits must be posted prior to the processing of payments or disbursing of funds, it is difficult for the Department to disburse federal funds in accordance with 31 CFR 205.

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.

##### **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) systems 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.

### **III. Federal Awards Findings and Questioned Costs**

#### **Finding No. 2014-005: Subrecipient Monitoring (Material Weakness)**

##### **Finding and Cause and Effect**

During our testing of the subrecipient monitoring compliance requirement, we noted that the ATR program did not perform monitoring of its subrecipients during fiscal year 2014.

We also noted that the program did not obtain audit reports in accordance with OMB Circular A-133 for the subrecipient's fiscal year ended June 30, 2014 and 2013.

Per inquiry with program personnel, the ATR program was understaffed for fiscal year 2014 and was unable to conduct subrecipient monitoring.

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.

##### **Corrective Action Plan**

The ATR Program will put together a monitoring schedule to monitor activities on a regular basis. In addition, ATR will 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.

##### **Person Responsible**

ATR Project Director

##### **Anticipated Date of Completion**

June 2016.



### **III. Federal Awards Findings and Questioned Costs**

#### **Finding No. 2014-006: Allowable Costs/Cost Principles – Payroll (Significant Deficiency)**

##### **Condition and Cause and Effect**

During our testing of payroll for the allowable costs compliance requirement for the Affordable Care Act Maternal, Infant, and Early Childhood Home Visiting Program (MIECHVP), we noted that the program had employees that spent 100% of their time on the grant but did not obtain semi-annual certifications signed by the employees or their supervisors confirming that they worked solely on grant related activities in accordance with OMB Circular A-87 guidelines for payroll.

The MIECHVP program did not prepare personnel activity reports for employees who worked on multiple federal awards, activities, or cost objectives.

One employee in the SAPT program was charged 100% to the SAPT program but completed two semi-annual certification indicating 5% of their time was spent on the SAPT program.

Policies and procedures were not in place to ensure that adequate documentation was maintained to confirm that the time allocated to the program for these employees were periodically reviewed by the employees and their supervisors. There was no documentation maintained to confirm the time allocated to the program for these employees.

##### **Corrective Action Plan**

The Maternal and Child Health Branch (MCHB), Maternal, Infant and Early Childhood Home Visiting (MIECHV) Program will obtain semi-annual certifications from all employees that spend 100% of their time on federally funded grant, confirming that they worked solely on grant related activities. The certification will be signed by both their employees and their supervisors.

For the SAPT grant, the ADAD program can confirm that the employee spent 100% of their time on the grant. However, the program is dealing with personnel issues with this particular employee and the time recorded on the timesheet is in dispute. The program Director is in the process of working with the employees supervisor to resolve the dispute.

##### **Person Responsible**

MCHB Public Health Administrative Officer and EBHV Project Coordinator  
ADAD Chief

##### **Anticipated Date of Completion**

June 1, 2015

### **III. Federal Awards Findings and Questioned Costs**

#### **Finding No. 2014-007: 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 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:

- 1) FFATA reports were not submitted for the MIECHV program during the state fiscal year 2014 due a lack of established policies and procedures over this requirement.
- 2) CWSRF did not meet the deadline for submission of the report under FFATA for subrecipient awards made from its fiscal year 2014 federal award. CWSRF did not establish adequate policies and procedures to ensure compliance with FFATA reporting 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.

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**

- 1) The Maternal and Child Health Branch (MCHB), Maternal, Infant and Early Childhood Home Visiting (MIECHV) Program will establish policies and procedures to ensure it complies with federal regulations and submit any required FFATA reports for its programs.
- 2) The CWSRF program will adhere to its policies and procedures that involve the timely submittal of the FFATA report for the fiscal year 2015 federal award. The CWSRF program is on schedule to meet the deadline for the submission of the FFATA report for the subrecipient awards made from the fiscal year 2015 federal award.

##### **Person Responsible**

- 1) MCHB Public Health Administrative Officer & EBHV Project Coordinator
- 2) Wastewater Branch Chief

**Anticipated Date of Completion**

- 1) June 1, 2015
- 2) March 18, 2015

### **III. Federal Awards Findings and Questioned Costs**

#### **Finding No. 2014-008: Allowable Costs/Cost Principles – Fringe Benefit (Significant Deficiency)**

##### **Condition and Cause and Effect**

During our testing of payroll for the MIECHV program, we noted the payout for an employee's leave that had accrued up to their termination was charged entirely to the MIECHVP award. Based on further inquiry with Department personnel, we noted that payments for accrued leave for terminated employees are charged as direct costs to the employees' respective program(s).

Unallowable costs were charged to the federal programs.

##### **Corrective Action Plan**

The Department will seek further clarification from cognizant agency regarding appropriate method for the Department to charge terminal leave costs for Federal programs. The Department will also consult with other state departments on their methods for charging terminal leave costs in accordance with OMB Circular A-87.

##### **Person Responsible**

Administrative Services Officer/Fiscal Officer

##### **Anticipated Date of Completion**

June 2016

### III. Federal Awards Findings and Questioned Costs

#### Finding No. 2014-009: Matching, Level of Effort, Earmarking (Significant Deficiency)

##### Finding and Cause and Effect

The audit noted the following for in-kind match:

- 20 instances where the pay rate used to calculate the match was for a period subsequent to the date of the event
- 3 instances where documentation to support the matching amount was not provided
- No secondary review of match calculation

PHP does not have policies and procedures to ensure that matching requirements are met.

We were unable to determine whether the support for the matching amount was accurate.

##### Corrective Action Plan

**Background Information on Findings** - The first observation stated that the pay rate of the individual on the date of an event was, at times, different from the pay rate used to calculate the match. The Payroll file that is used for the calculations only maintains a single rate of pay, so if an individual's rate of pay changes, only the most current rate of pay is available for the calculation. Since the majority of DOH staff are unionized, pay adjustments are infrequent, and may happen on an annual basis or every other year, depending on the collective bargaining agreement. Thus, if an individual had a pay rate adjustment, the most current rate of pay from the Payroll file was used in the calculation, not the rate of pay at the time the individual participated in the activity. The second observation included instances of missing sign-in sheets from the neighbor islands and missing signatures on the sign-in sheet. Each island maintains their own sign-in sheet so Oahu did not have a copy on file. The attendees on the sign-in sheet are entered into the TRAIN system, which tracks all DOH training and where data is extracted for the match calculations. The third observation was no secondary reviewer of the match calculation. Due to the confidentiality of the payroll information, PHP staff does not have access to review the details of the data calculation. Individual employee match calculations are not provided, and PHP only receives an aggregate total for all of the employee match calculations.

**Corrective Action** – The PHP program understands the need for accuracy in the matching calculations. These issues can be corrected by implementing a process that will result in capturing the data in a timely manner. To correct these issues related to

matching, the PHEP program will develop a policy and procedure document to support the accuracy of the match calculation. This document will contain the following:

- Matching requirement as specified in the HPP-PHEP Cooperative agreement
- Activity sign-in sheet procedures
  - Submission timeline requirements
- Data preparation procedures
  - Input data to TRAIN system
  - Format the data for electronic processing
- Data matching calculation procedures by Health Information Systems Office (HISO)
  - Calculation formula
- Review procedures
  - Due to confidentiality of payroll data, the PHP Fiscal Specialist will be the secondary reviewer.

Until the written policies and procedures are finalized, the PHP program will implement the following items, effective immediately, to ensure accurate matching calculations:

- Reiterate the importance of complete attendance logs to all trainers and at all trainings
- Require attendee's signature as proof of attendance (If this cannot be obtained, the signature of the trainer/organizer/planner verifying attendance is acceptable)
- Require TRAIN administrators to upload attendance logs to SharePoint
- TRAIN data will be downloaded quarterly and submitted to HISO for calculation
- Request for an additional HISO or HRO delegate to verify the accuracy of the match calculation

**Person Responsible**

BTP Sr. Data Processing Systems Analyst/BTP Education & Training Coordinator

**Anticipated Date of Completion**

July 31, 2015

### **III. Federal Awards Findings and Questioned Costs**

#### **Finding No. 2014-010: Reporting (Significant Deficiency)**

##### **Finding and Cause and Effect**

During our testing of the reporting compliance requirement, we noted that the Fund did not meet the deadline for submission of reports under Section 1512 of the American Recovery and Reinvestment Act of 2009, Public Law 111-5. CWSRF personnel did not establish adequate policies and procedures to ensure compliance with ARRA reporting requirements. Noncompliance with ARRA reporting requirements reduces transparency of federal awards and could result in sanctions by the EPA including increased oversight and/or reduction or elimination of federal awards.

##### **Corrective Action Plan**

The ARRA report was submitted the next reporting quarter on January 2, 2014, and this completed our submission since we reported all ARRA federal dollars that were disbursed by the Program. No follow-up is needed for this deficiency item since the Program completed the required ARRA reporting as of January 2, 2014.

##### **Person Responsible**

Wastewater Branch Chief

##### **Date of Completion**

January 2, 2014

### **III. Federal Awards Findings and Questioned Costs**

#### **Finding No. 2014-011: Special Tests (Significant Deficiency)**

##### **Finding and Cause and Effect**

The Department of Health does not have written procedures for overseeing program-enrolled providers that allows for sampling of provider's inventory records and assessment of storage procedures every other year. The Department did not perform a compliance site visit for three out of over 200 VFC service providers for two consecutive years. The Department of Health has been utilizing the 2014 Vaccines for Children Operations Guide by the Centers for Disease Control as their written policies and protocols. Although the Department does have procedures to ensure that VFC providers receive a VFC compliance site visit every other year, monitoring of these procedures were not performed. Noncompliance with special tests of the grant could result in sanctions by DHHS including increased oversight and/or reduction or elimination of federal awards.

##### **Corrective Action Plan**

The Department of Health Immunization Branch will establish written procedures for overseeing program-enrolled providers allowing for sampling of provider inventory records and assessment of storage procedures every other year. Also, the Immunization Branch will monitor to ensure all compliance site visits to designated providers were completed by program staff. All procedures will be in compliance with the new 2015 Vaccines for Children Operations Guide by the Centers for Disease Control and Prevention.

##### **Person Responsible**

MS Immunization Branch Chief

##### **Anticipated Date of Completion**

July 31, 2015