

# Auditor's Summary

## Financial Audit of the Department of Human Services

### Financial Statements, Fiscal Year Ended June 30, 2016



PHOTO: DEPARTMENT OF HUMAN SERVICES

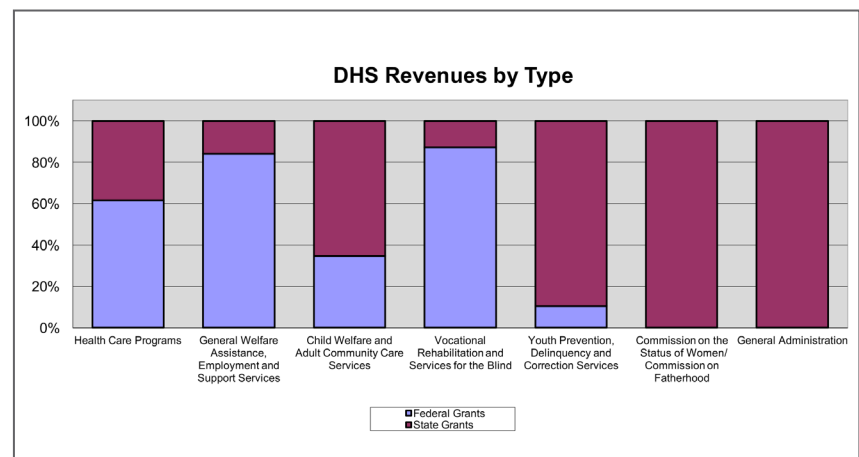
**THE PRIMARY PURPOSE** of the audit was to form an opinion on the fairness of the presentation of the financial statements for the Department of Human Services (DHS), as of and for the fiscal year ended June 30, 2016, and to comply with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), which established audit requirements for state and local governmental units that receive federal awards. The audit was conducted by KMH LLP.

## About the Department

**DHS' MISSION** is to direct its resources toward protecting and helping those least able to care for themselves and to provide services designed toward achieving self-sufficiency for clients as quickly as possible. DHS is committed to maintaining a high level of quality, efficiency, and effectiveness in its services. DHS' activities and attached programs include Health Care Programs; General Welfare Assistance, Employment and Support Services; Child Welfare and Adult Community Care Services; Vocational Rehabilitation and Services for the Blind; Youth Prevention, Delinquency and Correction Services; General Administration; Commission on the Status of Women; and Commission on Fatherhood.

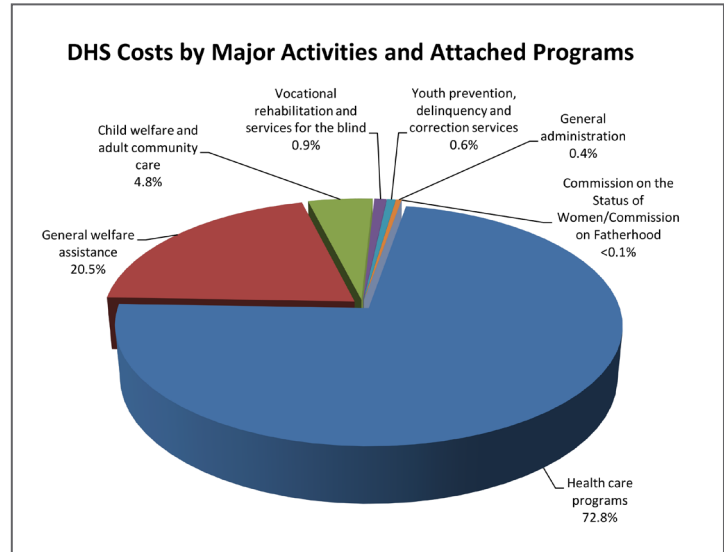
## Financial Highlights

**FOR THE FISCAL YEAR** ended June 30, 2016, DHS reported total revenues of \$3.52 billion and total expenses of \$3.50 billion. Revenues consisted of \$1.24 billion of state allotments, net of lapsed amounts plus nonimposed employee fringe benefits, and \$2.28 billion in program revenues, which consist of operating grants from the federal government. Revenues from these federal grants paid for 65 percent of the cost of DHS' activities.



Health care and general welfare assistance programs comprised 72.8 and 20.5 percent, respectively, of the total cost. The following chart presents each major activity as a percent of the total cost of all DHS activities.

As of June 30, 2016, DHS' total assets of \$593 million exceeded total liabilities of \$391 million by \$202 million. DHS had an unrestricted net position of \$74 million. Total assets were comprised of cash of \$343 million, receivables of \$122 million, and net capital assets of \$128 million.



## Auditors' Opinions

### DHS RECEIVED AN UNMODIFIED OPINION

that the financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. DHS received a qualified opinion on its compliance with requirements that could have a direct and material effect on its major federal programs, with the exception of the Supplemental Nutrition and Assistance Program (SNAP) Cluster, Low Income Home Energy Assistance, Social Security – Disability Insurance, and Foster Care, which received an unmodified opinion.

## Findings

**THERE WAS ONE MATERIAL WEAKNESS** in internal control over financial reporting that is required to be reported under *Government Auditing Standards*. There were 13 material weaknesses and three significant deficiencies in internal control over compliance in accordance with the *Uniform Guidance* and *Government Auditing Standards*.

### Material Weaknesses (14)

- Several audit adjustments made to the financial statements of the Med-Quest Division for the under accrual of medical assistance payable, under accrual of amounts due to the State, and over accrual of expenditures related to intangible assets;
- Eligibility determinations were not processed or not completed in a timely manner (2);
- Lack of proper documentation to support eligibility determinations and actions taken related to benefits (6);
- Failure to complete the participant's individualized plan for employment or obtain approval;
- Inaccurate federal data reporting or failure to submit required reports (2);
- Lack of monitoring for earmarked funds; and
- Failure to properly monitor participants' work activity.

### Significant Deficiencies (3)

- Lack of post-payment review process over utilization of Medicaid services;
- Lack of subcontractor monitoring procedures over the Medicaid Drug Rebate Program; and
- Late submission of one report for the Social Services Block Grant.

### Other Matters (3)

- Lack of proper documentation or inaccurate information used for eligibility determinations resulted in benefits calculated incorrectly (3).

For the complete report and financial statements visit our website at:  
[http://files.hawaii.gov/auditor/Reports/2016\\_Audit/DHS2016.pdf](http://files.hawaii.gov/auditor/Reports/2016_Audit/DHS2016.pdf)