Department of Human Services
State of Hawaii

Financial Statements
June 30, 2017
Together with Independent Auditor's Report

Submitted by

THE AUDITOR
STATE OF HAWAII

March 21, 2018

Mr. Leslie Kondo, State Auditor
Office of the Auditor
State of Hawaii

Dear Mr. Kondo:

This is our report on the financial audit of the Department of Human Services of the State of Hawaii (DHS) as of and for the fiscal year ended June 30, 2017. Our audit was performed in accordance with the terms of our contract with the State of Hawaii and 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), *Government Auditing Standards*, Audits of States, Local Governments, and Non-Profit Organizations.

OBJECTIVES OF THE AUDIT

The primary purpose of our audit was to form an opinion on the fairness of the presentation of the DHS's basic financial statements as of and for the fiscal year ended June 30, 2017, and to comply with the requirements of the Uniform Guidance. The objectives of the audit were as follows:

1. To provide a basis for an opinion as to whether the financial statements of the DHS are fairly presented, in all material respects, in accordance with U.S. generally accepted accounting principles.

2. To report on the DHS's internal control over financial reporting and compliance with certain provisions of laws, regulations, contracts, and grant agreements, including applicable provisions of the Hawaii Public Procurement Code (Chapter 103D of the Hawaii Revised Statues) and procurement rules, directives and circulars, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

3. To provide a basis for an opinion as to whether the DHS has complied with compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of its major federal programs, including whether the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

4. To report on the internal control over compliance of the DHS for the purpose of expressing an opinion on compliance with requirements of laws, regulations, contracts and grants that could have a direct and material effect on each major federal program in accordance with OMB's Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.

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SCOPE OF THE AUDIT

Our audit was performed 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 the Uniform Guidance. The scope of our audit included an examination of the transactions and accounting records of the DHS as of and for the fiscal year ended June 30, 2017.

ORGANIZATION OF THE REPORT

This report is presented in six parts as follows:

- Part I – The basic financial statements and related notes of the DHS as of and for the fiscal year ended June 30, 2017, and our opinion on the basic financial statements.
- Part II – Our report on internal control over financial reporting and compliance.
- Part III – Our report on compliance with requirements applicable to 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.

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

Sincerely,

Wilcox Choy

Wilcox Choy
Partner

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PART I

FINANCIAL SECTION

Independent Auditor's Report

Office of the Auditor
State of Hawaii

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Department of Human Services of the State of Hawaii (DHS), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the DHS'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 auditor considers 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.

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the DHS, as of June 30, 2017, and the respective changes in financial position, and the respective budgetary comparison for the General Fund and Special Revenue Funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the DHS are intended to present the financial position, the changes in financial position, and budgetary comparisons, of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Hawaii that is attributable to the transactions of the DHS. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2017, the changes in financial position, 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 9 through 19 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the DHS's basic financial statements. The schedule of expenditures of federal awards as required by the Office of Management and Budget, Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) 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 21, 2018 on our consideration of the DHS'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 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 DHS's internal control over financial reporting and compliance.

KMH LLP

KMH LLP

Honolulu, Hawaii
March 21, 2018

Department of Human Services
State of Hawaii

Management Discussion and Analysis
June 30, 2017

This discussion and analysis of the financial performance of the Department of Human Services (DHS) provides an overview of the financial activities of the DHS for the fiscal year ended June 30, 2017. The intent of this discussion is to allow management to provide an objective and easily readable analysis of the financial activities of the DHS based on currently known facts, decisions, or conditions. Readers are encouraged to consider the information presented here in conjunction with the basic financial statements and other supplementary information.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

The Management's Discussion and Analysis (MD&A) serves as an introduction to the basic financial statements of the DHS. 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 a broad overview of the finances of the DHS using the economic resources measurement focus and accrual basis of accounting, in a manner similar to private-sector businesses. It provides both long-term and short-term information about the overall financial status of the DHS.

The statement of net position includes all of the assets and liabilities of the DHS, with the difference between the two reported as net position. This statement is similar to that of the balance sheet of a private-sector business. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the DHS is improving or deteriorating. This statement also provides information on how services were financed in the short-term as well as what remains for future spending.

The statement of activities presents information showing how net position changed during the fiscal year. All changes in net position are reported using the accrual method of accounting, similar to the method used by most private-sector businesses. Under the accrual basis of accounting, revenues are recognized when they are earned and expenses are reported when the goods or services are received, regardless of the timing of the related cash flows. The activities of the DHS are principally supported by appropriations made available by the State Legislature and intergovernmental revenues from the federal government (governmental activities). The DHS does not recover any portion of its costs through user fees or charges for services (business-type activities).

Fund Financial Statements

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 DHS uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the DHS are divided between either governmental funds or fiduciary funds. Governmental funds are used to account for most, if not all, of a government entity's tax-supported activities. Fiduciary funds are used to account for resources that are held by a government entity as a trustee or agent for parties outside of the government entity. The resources of fiduciary funds cannot be used to support the government entity's own programs.

The fund financial statements of the DHS include the following types of funds:

> **Governmental funds -** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources and balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government entity's near-term financing requirements. By comparing the governmental fund and government-wide financial statements, readers may better understand the long-term impact of the entity's near-term financing decisions. In order to facilitate a comparison between the governmental fund and government-wide financial statements, a reconciliation between the two is provided following each governmental fund financial statements.
>
> **Fiduciary funds -** The fiduciary funds of the DHS consists of agency funds which are clearing accounts for assets held by the DHS in its role as custodian until the funds are allocated to the individuals, private organizations, or government agencies to which they belong. These activities are excluded from the government-wide financial statements of the DHS because the DHS cannot use these assets to finance its operations.

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE FINANCIAL STATEMENTS

The following table presents a condensed government-wide statement of net position of the DHS as of June 30, 2017 and 2016.

Condensed Statement of Net Position

	2017	2016
Current Assets	$ 394,853,835	$ 464,668,228
Capital Assets, net	106,258,668	128,165,914
Total assets	$ 501,112,503	$ 592,834,142
Current Liabilities	$ 291,687,891	$ 375,466,648
Non-current Liabilities	15,842,026	15,574,716
Total liabilities	307,529,917	391,041,364
Net Position:		
Invested in capital assets	106,258,668	128,165,914
Unrestricted	87,323,918	73,626,864
Total net position	193,582,586	201,792,778
Total liabilities and net position	$ 501,112,503	$ 592,834,142

As noted earlier, an analysis of net position over time may be a useful indicator of whether a government entity's financial condition is growing stronger or weakening. During the fiscal year ended June 30, 2017, the combined net position of the DHS decreased by approximately $8 million.

The unrestricted net position of the DHS was approximately $87.3 million as of June 30, 2017. The largest liabilities as of June 30, 2017, are the federal expenditures incurred but not yet reimbursed by the federal government as of June 30, 2017 and the estimated amount of medical assistance service provided as of June 30, 2017, for which the related claims and capitation fees will be processed and paid subsequent to June 30, 2017. For the unreimbursed federal expenses as of June 30, 2017 of $151.4 million, the majority is an adjustment to the federal grant award for the medical assistance program, of which $112 million will be received after June 30, 2017. Of the estimated $75.9 million of medical assistance payable, the State's share of these costs is approximately $35.7 million. The estimated federal share of these costs to be paid in the future was recorded as intergovernmental revenues in the current fiscal year and is included in the balance due from other governments. In addition to the estimated medical assistance payable, the liability for compensated absences totaling approximately $14.0 million as of June 30, 2017, is not funded by state allotments until the employee uses the earned leave or is paid out upon termination. Therefore, there are no assets currently available to the DHS to pay for these liabilities as of June 30, 2017.

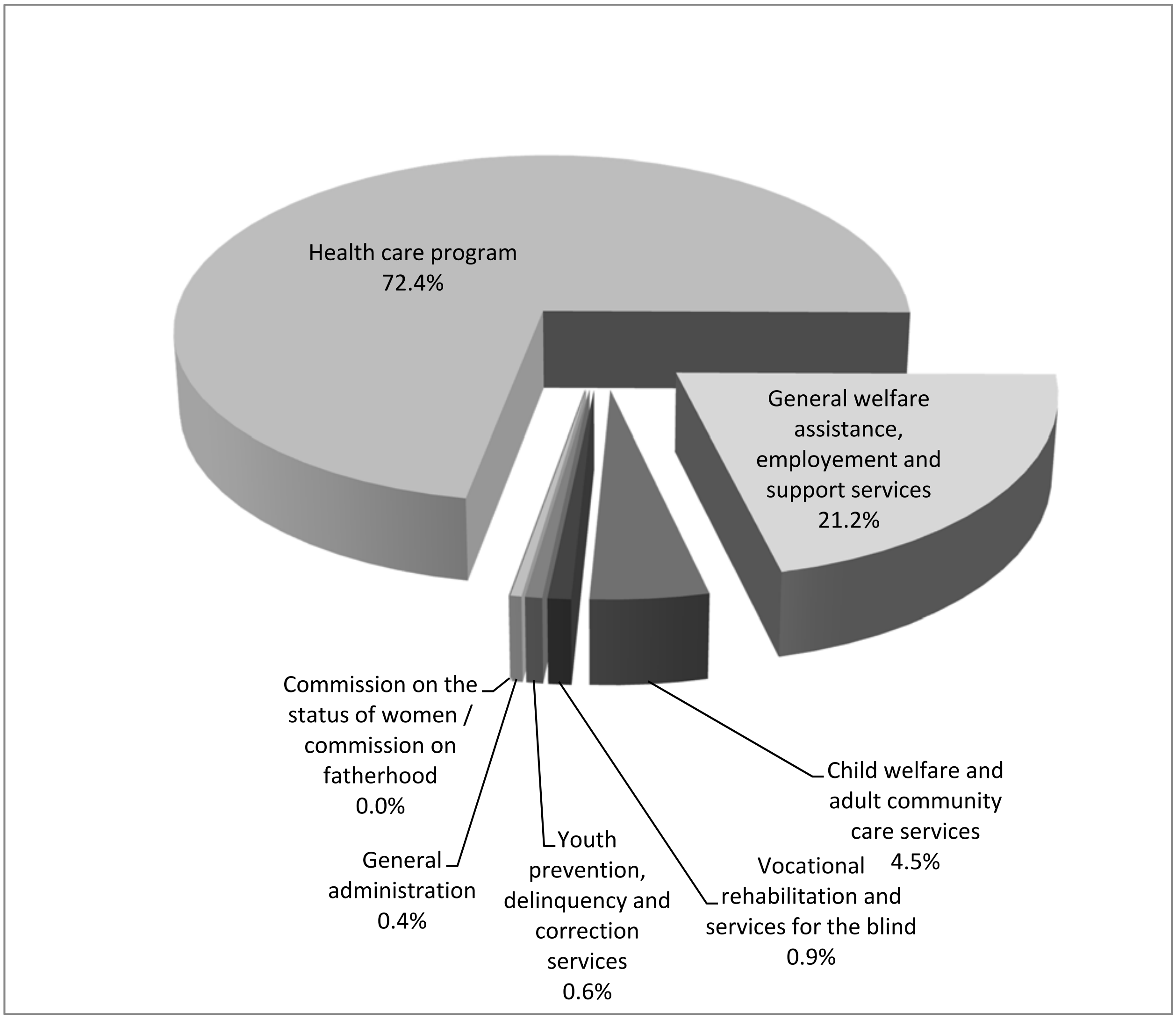
The DHS reported a total of approximately $106.3 million in net position invested in capital assets as of June 30, 2017. Although the DHS is not the legal owner of the state buildings that are reported as part of its capital assets, the portion of the state facilities used by the DHS are required to be reported as part of its capital assets. The DHS uses these capital assets to provide services; consequently, these assets are not available for future spending and the related annual depreciation expense of the cost of these facilities is included in the statement of activities for the fiscal year ended June 30, 2017.

The changes in the net position of the DHS from governmental activities are summarized below. The DHS directs its resources towards assisting people to meet their basic needs for food, shelter, medical care and other essentials for daily living. As such, the DHS does not conduct business-type activities and the accompanying analysis of the changes in net position focuses on the cost of services and who provides the funds to pay for the costs.

Changes in Net Position

	2017	2016	Percent Change
Revenues:			
Program revenues	$ 2,345,870,246	$ 2,276,348,974	3.06%
General revenues	1,283,087,995	1,238,631,862	3.59%
Total revenues	3,628,958,241	3,514,980,836	3.25%
Expenses:			
Health care programs	2,631,888,594	2,547,635,739	3.31%
General welfare assistance, employment and support services	770,491,168	717,446,488	7.40%
Child welfare and adult community care services	164,003,017	166,694,329	(1.62)%
Vocational rehabilitation and services for the blind	32,224,666	31,830,104	1.24%
Youth prevention, delinquency and correction services	23,480,974	22,360,584	5.01%
General administration	15,246,694	14,190,170	7.45%
Commission on the status of women / commission on fatherhood	299,593	170,539	75.67%
Total expenses	3,637,634,706	3,500,327,953	3.93%
Change in net position, before transfers	$ (8,676,465)	$ 14,652,883	

The total cost of all programs and services was approximately $3.6 billion, a 3.93% increase from the prior fiscal year. Health care and general welfare assistance programs comprised 72.4% and 21.2%, respectively, of the total costs. The following chart presents each major activity as a percent of the total cost of all DHS activities:



Department of Human Services
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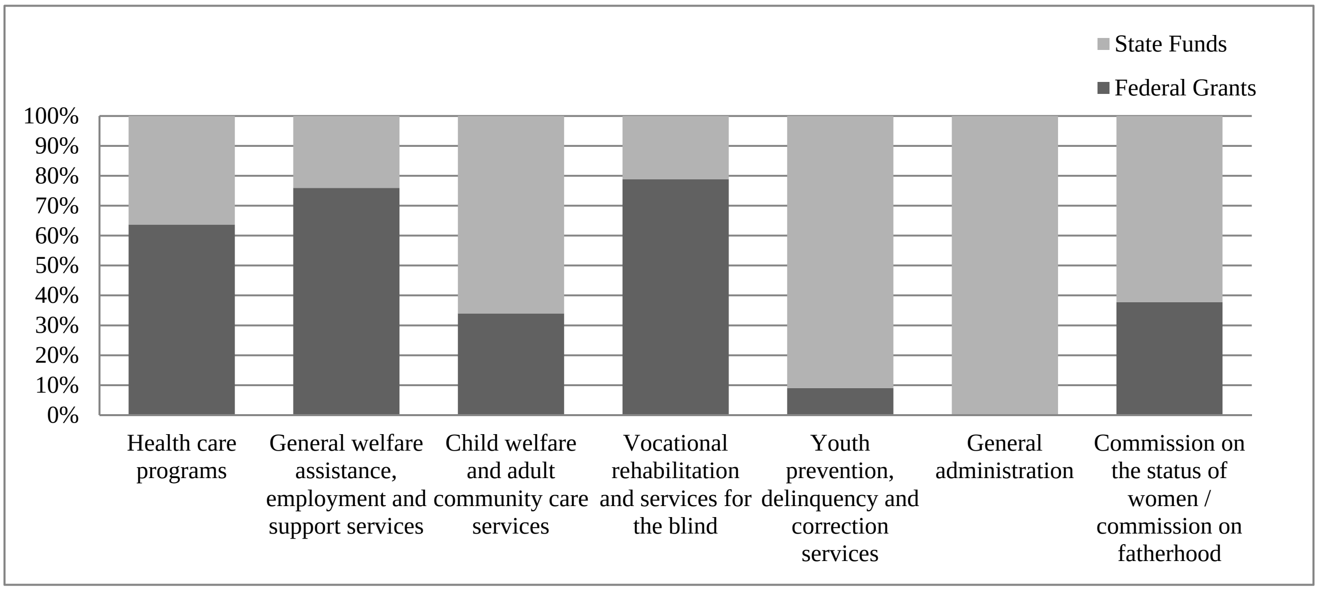
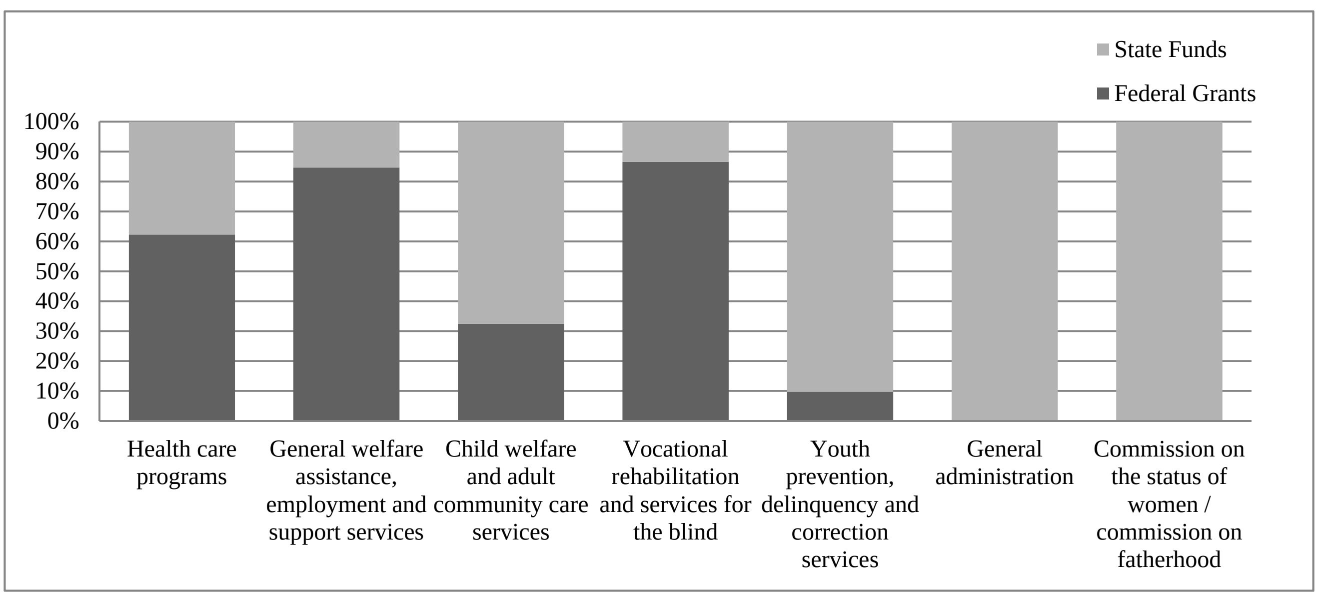
Management Discussion and Analysis (continued)
June 30, 2017

Program revenues consist primarily of operating grants from the federal government. Revenues from these federal grants paid for 64.49% of the cost of all the DHS's activities. The following chart presents the percentage of costs funded by federal grants for each major activity of the DHS for the fiscal years ended June 30, 2017 and 2016:

Fiscal Year 2017



Fiscal Year 2016



FINANCIAL ANALYSIS OF THE FUND FINANCIAL STATEMENTS

As noted earlier, the DHS uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The DHS has two governmental fund types; the general fund and special revenue funds. The general fund is used to account for all financial resources except those required to be accounted for in another fund. The special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. In general, operating grants the DHS receives from the federal government are accounted for in the special revenue funds and all allotments of state funds are accounted for in the general fund along with any other resources available to the DHS that are not accounted for in the special revenue funds.

Total expenditures reported on an accrual basis increased by $110 million over the prior fiscal year. This increase is primarily related to health care program and general welfare assistance, employment and support services costs administered by the DHS which have increased by approximately $49.8 million or 1.95% and $52.7 million or 7.35%, respectively. For the health care program, medical assistance increased due to an increase in the capitation rate. The increase in costs for the general welfare assistance, employment and support services program are due to reimbursement of prior year costs.

At June 30, 2017, the total governmental fund balance of the DHS consisted of committed, and assigned fund balance of approximately, $2.6 million, and $105.9 million, respectively. The committed fund balance of the special revenue funds totaling $2.6 million is principally the result of amounts that are limited by the state law for specific use.

The following table presents total revenues and expenditures of the governmental funds of the DHS for the fiscal years ended June 30, 2017 and 2016:

	2017	2016	Percent Change
Revenues:			
State allotted appropriations	$ 1,256,862,302	$ 1,215,019,091	3.44%
Intergovernmental revenues	2,345,870,246	2,276,348,974	3.06%
Non-imposed employee fringe benefits	26,225,693	23,612,771	11.07%
Total	$ 3,628,958,241	$ 3,514,980,836	3.25%

	2017	2016	Percent Change
Expenditures:			
Health care programs	$ 2,609,586,686	$ 2,559,757,248	1.95%
General welfare assistance, employment and support services	769,904,877	717,228,184	7.35%
Child welfare and adult community care services	164,015,613	159,541,247	2.81%
Vocational rehabilitation and services for the blind	33,753,383	31,744,294	6.33%
Youth prevention, delinquency and correction services	22,749,602	22,236,332	2.31%
General administration	15,263,141	14,148,192	7.88%
Commission on the status of women / commission on fatherhood	298,848	170,951	74.82%
Total	$ 3,615,572,150	$ 3,504,826,448	3.16%

BUDGETARY ANALYSIS

As required by Section 37-68, Hawaii Revised Statutes, the DHS prepares a budget that becomes legally adopted when the State Legislature approves the executive budget with the enactment of an appropriations act. A comparison and analysis of the general fund is presented below as additional financial information:

	Original Budget	Final Budget	Actual on Budgetary Basis	Variance Favorable (Unfavorable)
Health care programs	$1,004,369,335	$ 999,034,077	$ 941,739,279	$ 57,294,798
General welfare assistance, employment and support services	161,624,034	158,462,035	151,242,519	7,219,516
Child welfare and adult community care services	104,713,266	103,336,603	99,211,185	4,125,418
Youth prevention, delinquency and correction services	20,328,805	19,968,529	19,755,274	213,255
General administration	11,944,591	14,140,099	13,464,970	675,129
Vocational rehabilitation and services for the blind	6,209,962	4,743,777	4,743,777	-
Commission on the status of women/commission on fatherhood	164,016	159,389	155,131	4,258
	$ 1,309,354,009	$ 1,299,844,509	$ 1,230,312,135	$ 69,532,374

The differences between the original and final budget for the individual programs is mainly due to a restriction of funds and unallotted appropriations.

The majority of the savings for the health care programs were due to the late receipt of reimbursements. Because the reimbursements were received after the fiscal year ended, the program was not able to utilize the funds. The health care program also had a change in their certification process, resulting in a savings for fiscal year 2016. The amounts expended in comparison to the amount budgeted appears favorable.

CAPITAL ASSETS

As of June 30, 2017 and 2016, the cost basis of capital assets, net of accumulated depreciation, used by the DHS are presented in the table below. Approximately $4.7 million of capital assets were added in the fiscal year ended June 30, 2017. The increase in capital assets is due to the additional system upgrade for the Affordable Care Act (ACA), in the amount of $2.5 million. Annual depreciation totaling approximately $26.5 million decreased the net cost basis during the fiscal year ended June 30, 2017.

Capital Assets, Net of Depreciation

	2017	2016
Depreciable Assets:		
State office buildings and improvements	$ 13,650,196	$ 12,819,950
Building and improvements for the Office of Youth Services	12,290,566	13,055,812
Intangible assets - software	80,012,397	102,085,166
Total buildings and improvements	105,953,159	127,960,928
Furniture, equipment and vehicles	305,503	204,980
Non-depreciable Assets:		
Land	6	6
Total	$106,258,668	$ 128,165,914

In addition to the capital assets listed above, the DHS leases numerous office facilities from third-party lessors under operating lease arrangements. Those leases for additional space beyond the state facilities listed above as buildings and improvements are necessary to provide program services throughout the State.

ECONOMIC FACTORS

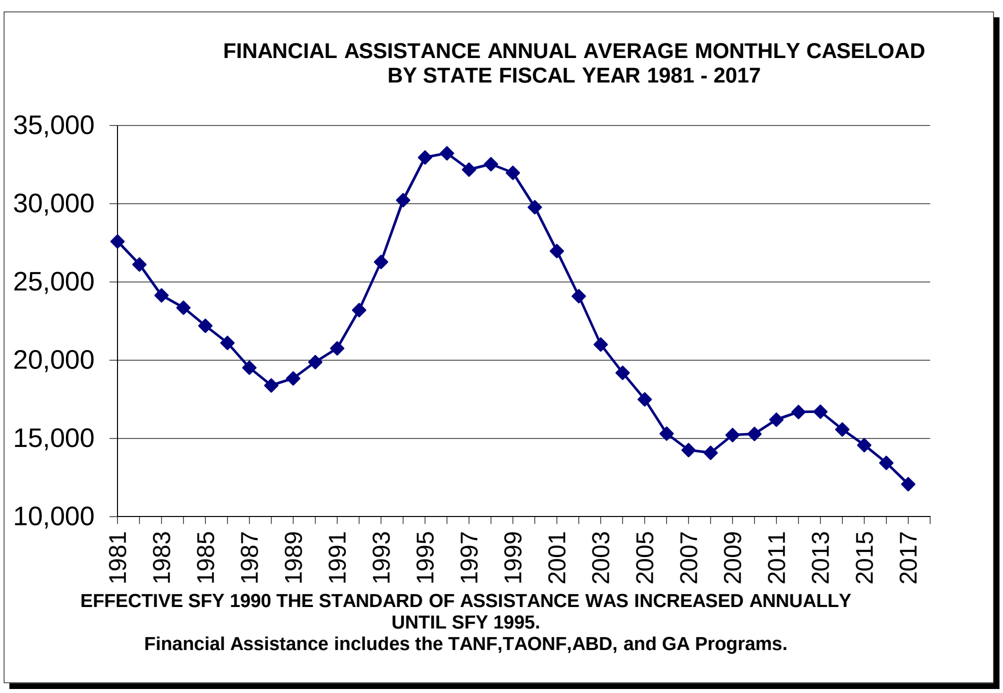
In state fiscal year 2017, the number of individuals in Hawaii receiving financial assistance decreased by -13%. This year's decline follows a -14% decrease last year. In June 2016, a total of 24,015 individuals in Hawaii were receiving financial assistance as compared to 20,876 in June 2017, a decline of 3,139 individuals.

Average monthly financial assistance caseload decreased by -10% from state fiscal year 2016 to 2017, from 13,444 to 12,092, respectively.

Over the most recent 2017 fiscal year, the average number of individuals in Hawaii receiving Supplemental Nutrition Assistance Program (SNAP), formerly known as Food Stamp Program decreased by -4.6%. This year's decline follows a -6.7% decrease last year. The monthly average number of individuals receiving SNAP benefits in Hawaii in fiscal years 2016 and 2017 was 179,138 and 170,850, respectively.

The number of individuals receiving SNAP benefits and financial assistance in Hawaii is expected to continue on a downward trend over the next fiscal year.

Figure 1.



Department of Human Services
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Management Discussion and Analysis (continued)
June 30, 2017

Figure 2.

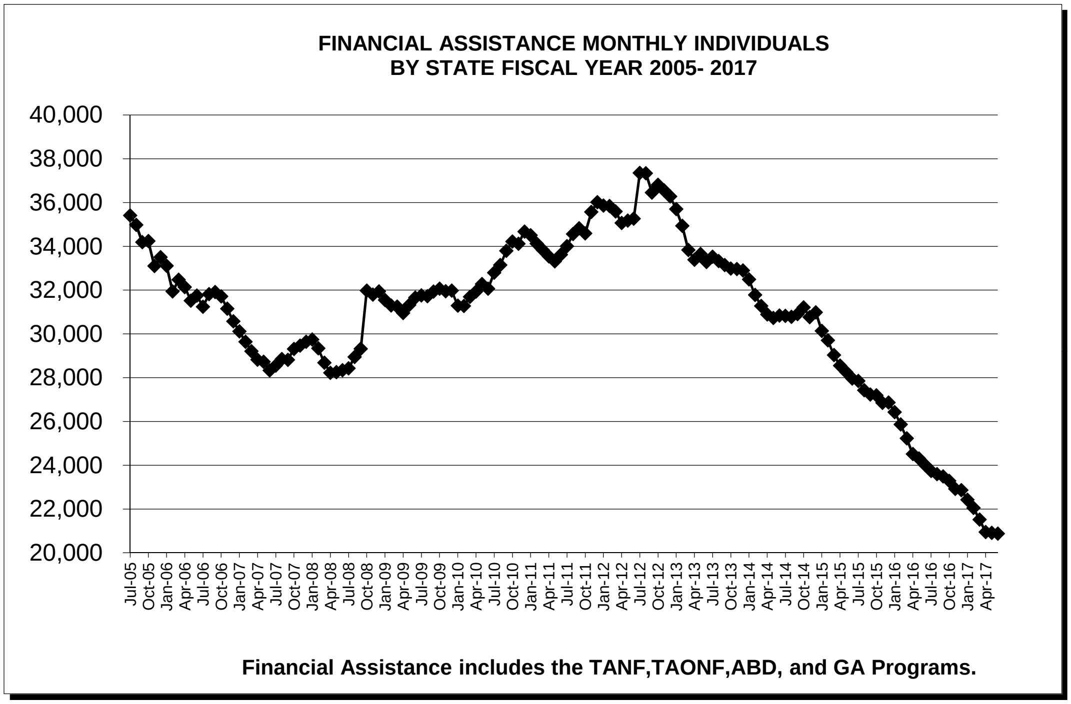
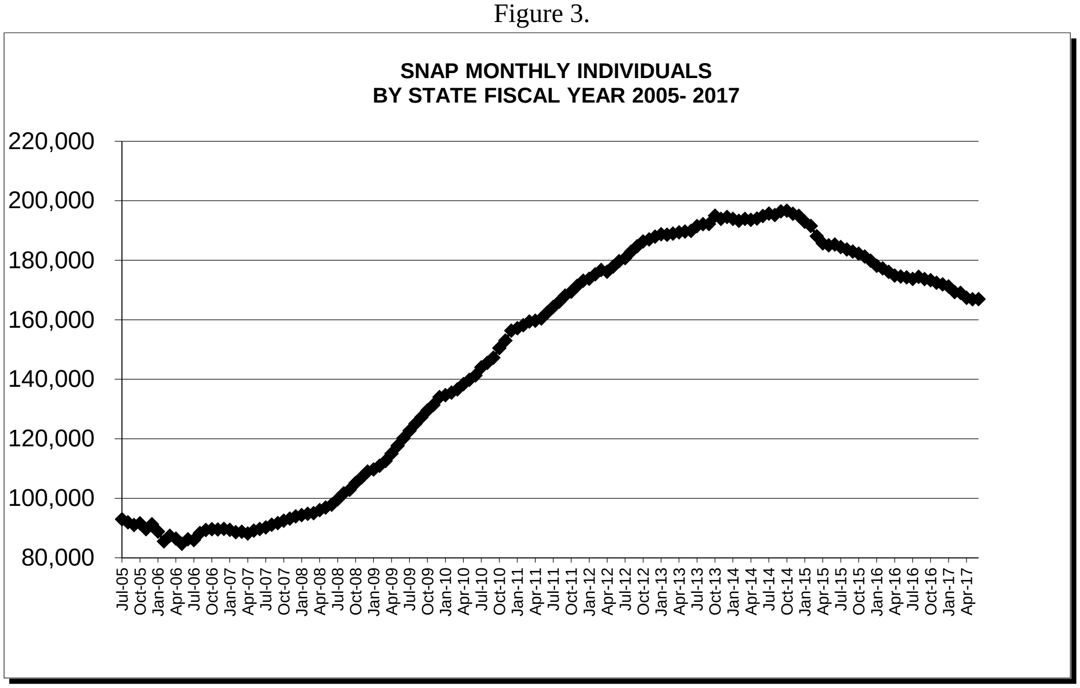


Figure 3.



Department of Human Services
State of Hawaii

Statement of Net Position
June 30, 2017

	Governmental Activities
Assets	
Cash and Cash Equivalents	$ 199,067,402
Receivables, net	69,785,431
Due from Other Governments	126,001,002
Total current assets	394,853,835
Capital Assets, Net of Accumulated Depreciation	106,258,668
Total assets	$ 501,112,503
Liabilities	
Vouchers Payable	$ 20,021,418
Accrued Wages and Employee Benefits Payable	11,359,322
Due to State General Fund	179,018,786
Accrued Medical Assistance Payable	75,983,365
Accrued Compensated Absences	5,305,000
Total current liabilities	291,687,891
Accrued Compensated Absences, Less Current Portion	8,742,026
Claims and Judgments	7,100,000
Total liabilities	307,529,917
Net Position	
Net Investment in Capital Assets	106,258,668
Unrestricted	87,323,918
Total net position	193,582,586
Total liabilities and net position	$ 501,112,503

See accompanying notes to the basic financial statements.

Department of Human Services
State of Hawaii

Statement of Activities
For the Fiscal Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expenses) Revenue and Changes in Net Position
Governmental Activities:				
Health care programs	$ 2,631,888,594	$ -	$ 1,677,388,636	$ (954,499,958)
General welfare assistance, employment and support services	770,491,168	-	585,114,429	(185,376,739)
Child welfare and adult community care services	164,003,017	-	55,733,473	(108,269,544)
Vocational rehabilitation and services for the blind	32,224,666	-	25,404,749	(6,819,917)
Youth prevention, delinquency and correction services	23,480,974	-	2,115,340	(21,365,634)
General administration	15,246,694	-	438	(15,246,256)
Commission on the status of women / commission on fatherhood	299,593	-	113,181	(186,412)
Total governmental activities	$ 3,637,634,706	$ -	$ 2,345,870,246	$ (1,291,764,460)
General Revenues:				
State allotments, net of lapsed appropriations				$ 1,256,862,302
Nonimposed employee fringe benefits				26,225,693
Total general revenues				1,283,087,995
Transfers				466,273
Change in net position				(8,210,192)
Net Position at June 30, 2016				201,792,778
Net Position at June 30, 2017				$ 193,582,586

See accompanying notes to the basic financial statements.

Department of Human Services
State of Hawaii

Balance Sheet – Governmental Funds
June 30, 2017

	General	Med-QUEST Special Revenue Fund	Human Services Special Revenue Fund	Total
ASSETS:				
Cash and cash equivalents	$ 148,571,136	$ 7,407,587	$ 43,088,679	$ 199,067,402
Receivables, net	14,998,260	53,324,692	1,462,479	69,785,431
Due from other funds	175,252,246	77,454	-	175,329,700
Due from other governments	-	116,357,367	9,643,635	126,001,002
Total assets	$ 338,821,642	$ 177,167,100	$ 54,194,793	$ 570,183,535
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Vouchers payable	$ 12,189,287	$ -	$ 7,832,131	$ 20,021,418
Accrued wages and employee benefits payable	6,032,745	1,023,294	4,303,283	11,359,322
Due to other funds	-	135,851,711	39,477,989	175,329,700
Due to State general fund	179,018,786	-	-	179,018,786
Accrued medical assistance payable	35,691,270	40,292,095	-	75,983,365
Total liabilities	232,932,088	177,167,100	51,613,403	461,712,591
FUND BALANCES:				
Committed	-	-	2,581,390	2,581,390
Assigned	105,889,554	-	-	105,889,554
Total fund balances	105,889,554	-	2,581,390	108,470,944
Total liabilities and fund balances	$ 338,821,642	$ 177,167,100	$ 54,194,793	$ 570,183,535

See accompanying notes to the basic financial statements.

Department of Human Services
State of Hawaii

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2017

Total Fund Balances - Governmental Funds		$ 108,470,944
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		
Capital assets:		
Governmental capital assets	248,018,320	
Less accumulated depreciation and amortization	(141,759,652)	106,258,668
Accrued compensated absences are not due in the current period and, therefore, are not reported in the governmental funds.		(14,047,026)
Claims and judgements are not due in the current period and, therefore, are not reported in the governmental funds.		(7,100,000)
Net Position of Governmental Activities		$ 193,582,586

See accompanying notes to the basic financial statements.

Department of Human Services
State of Hawaii

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
For the Fiscal Year Ended June 30, 2017

	General	Med-Quest Special Revenue Fund	Human Services Special Revenue Fund	Total
REVENUES:				
State-allotted appropriations	$ 1,256,862,302	$ -	$ -	$ 1,256,862,302
Intergovernmental	-	1,677,388,636	668,481,610	2,345,870,246
Nonimposed employee fringe benefits	26,225,693	-	-	26,225,693
	1,283,087,995	1,677,388,636	668,481,610	3,628,958,241
EXPENDITURES:				
Health care programs	932,198,050	1,677,388,636	-	2,609,586,686
General welfare assistance, employment and support services	184,790,448	-	585,114,429	769,904,877
Child welfare and adult community care services	108,161,746	-	55,853,867	164,015,613
Vocational rehabilitation and services for the blind	8,337,703	-	25,415,680	33,753,383
Youth prevention, delinquency and correction services	20,634,262	-	2,115,340	22,749,602
General administration	15,262,703	-	438	15,263,141
Commission on the status of women / commission on fatherhood	185,667	-	113,181	298,848
	1,269,570,579	1,677,388,636	668,612,935	3,615,572,150
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	13,517,416	-	(131,325)	13,386,091
OTHER FINANCING SOURCES				
TRANSFERS IN	6,237,194	-	-	6,237,194
TRANSFERS OUT	(5,770,921)	-	-	(5,770,921)
	466,273	-	-	466,273
NET CHANGE IN FUND BALANCES	13,983,689	-	(131,325)	13,852,364
FUND BALANCES AT JULY 1, 2016	91,905,865	-	2,712,715	94,618,580
FUND BALANCES AT JUNE 30, 2017	$ 105,889,554	$ -	$ 2,581,390	$ 108,470,944

See accompanying notes to the basic financial statements.

Department of Human Services
State of Hawaii

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances to the Statement of Activities
For the Fiscal Year Ended June 30, 2017

Net Change in Fund Balances - Total Governmental Funds	$ 13,852,364
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 are depreciated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays less dispositions this year.	(21,907,246)
Change in long-term 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 governmental funds.	(155,310)
Change in Net Position - Governmental Activities	$ (8,210,192)

See accompanying notes to the basic financial statements.

Department of Human Services
State of Hawaii

General Fund
Statement of Revenues and Expenditures - Budget and Actual
For the Fiscal Year Ended June 30, 2017

	Original	Final	Actual on Budgetary Basis	Variance Favorable (Unfavorable)
REVENUES --				
State Allotments	$ 1,309,354,009	$ 1,299,844,509	$ 1,242,844,015	$ (57,000,494)
EXPENDITURES:				
Health care programs	1,004,369,335	999,034,077	941,739,279	57,294,798
General welfare assistance, employment and support services	161,624,034	158,462,035	151,242,519	7,219,516
Child welfare and adult community care services	104,713,266	103,336,603	99,211,185	4,125,418
Youth prevention, delinquency and correction services	20,328,805	19,968,529	19,755,274	213,255
General administration	11,944,591	14,140,099	13,464,970	675,129
Vocational rehabilitation and services for the blind	6,209,962	4,743,777	4,743,777	-
Commission on the status of women / commission on fatherhood	164,016	159,389	155,131	4,258
	1,309,354,009	1,299,844,509	1,230,312,135	69,532,374
Excess of revenues over expenditures	-	-	12,531,880	12,531,880
OTHER FINANCING SOURCES --				
TRANSFERS IN	-	-	466,273	466,273
	-	-	466,273	466,273
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES	$ -	$ -	$ 12,998,153	$ 12,998,153

See accompanying notes to the basic financial statements.

Department of Human Services
State of Hawaii

Special Revenue Funds
Statement of Revenues and Expenditures - Budget and Actual
For the Fiscal Year Ended June 30, 2017

			Actual on Budgetary Basis		
	Original	**Final**	**Med-QUEST Special Revenue Fund**	**Human Services Special Revenue Fund**	**Variance Favorable (Unfavorable)**
REVENUES --					
Intergovernmental Revenues:					
Med-QUEST	$ 1,616,636,627	$ 1,616,636,627	$ 1,605,930,062	$ -	$ (10,706,565)
Human services	185,472,174	185,472,174	-	184,340,104	(1,132,070)
	1,802,108,801	1,802,108,801	1,605,930,062	184,340,104	(11,838,635)
EXPENDITURES:					
Health care programs	1,616,636,627	1,616,636,627	1,537,213,747	-	79,422,880
General welfare assistance, employment and support services	117,635,600	117,635,600	-	46,080,364	71,555,236
Child welfare and adult community care services	42,978,450	42,978,450	-	29,082,429	13,896,021
Vocational rehabilitation and services for the blind	18,947,551	18,947,551	-	11,507,581	7,439,970
Youth prevention, delinquency and correction services	2,572,105	2,572,105	-	-	2,572,105
General administration	3,098,468	3,098,468	-	1,594,096	1,504,372
Commission on the status of women / commission on fatherhood	240,000	240,000	-	113,181	126,819
	1,802,108,801	1,802,108,801	1,537,213,747	88,377,651	176,517,403
Excess of revenues over expenditures	-	-	68,716,315	95,962,453	164,678,768
EXCESS OF REVENUES OVER EXPENDITURES	$ -	$ -	$ 68,716,315	$ 95,962,453	$ 164,678,768

See accompanying notes to the basic financial statements.

Department of Human Services
State of Hawaii

Fiduciary Funds
Statement of Fiduciary Net Assets
June 30, 2017

	Agency Fund	Private Purpose Trust Funds
ASSETS --		
Cash	$ 2,266,423	$ 375,384
Total assets	$ 2,266,423	$ 375,384
LIABILITIES:		
Due to individuals	$ 1,113,260	$ -
Due to others	1,153,163	-
Total liabilities	$ 2,266,423	-
NET ASSETS - HELD IN TRUST		$ 375,384

See accompanying notes to the basic financial statements.

Department of Human Services
State of Hawaii

Fiduciary Funds
Statement of Changes in Fiduciary Net Assets
June 30, 2017

	Private Purpose Trust Funds
Additions --	
Donations	$ 6,743
Total additions	6,743
Deductions --	
Other	5,001
Total deductions	5,001
CHANGES IN NET ASSETS	1,742
NET ASSETS AT JULY 1, 2016	373,642
NET ASSETS AT JUNE 30, 2017	$ 375,384

See accompanying notes to the basic financial statements.

1. Financial Reporting Entity

The Hawaii State Government Reorganization Act of 1959 (Act 1, Second Special Session Laws of Hawaii 1959) created the Department of Social Services and Housing. In 1987, the name was changed to the Department of Human Services (DHS). The DHS's 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. The DHS is committed to maintaining a high level of quality, efficiency, and effectiveness in its services.

The DHS is part of the executive branch of the State of Hawaii (State). The DHS's basic financial statements reflect only its portion of the fund type categories. The State Comptroller maintains the central accounts for all state funds and publishes financial statements for the State annually which includes the DHS's financial activities.

The accompanying basic financial statements reflect the financial position and results of operations of the following activities of the DHS:

Health Care Programs: The Med-QUEST Division administers the State's Medicaid program through which healthcare is provided to the low-income population. The Medicaid program is jointly financed by the State and the federal government. The division develops and maintains working relationships with health plans, providers, federal and state authorities, community agencies, client advocacy groups, and others. Healthcare coverage is provided through either fee-for-service payments to healthcare providers or contracts with managed care health plans. The State's Children Health Insurance Program was established to expand health coverage to more children whose families may be working but do not earn enough to pay for health coverage for their children. The division's operations are reported in the general, special revenue, and agency funds.

General Welfare Assistance, Employment and Support Services: The Benefit, Employment and Support Services division provides monthly benefits to assist eligible clients with such essentials as food, clothing, shelter, emergency assistance, child care, and work support, as well as employment and training to help families attain self-sufficiency. Cash benefits are provided to individuals and families through the Temporary Assistance to Needy Families, Temporary Assistance to Other Needy Families, General Assistance, and Assistance to the Aged, Blind, and Disabled programs, as well as the Low Income Home Energy Program and Child Care Connection Hawaii. The Supplemental Nutrition Assistance Program (SNAP) – formerly

1. Financial Reporting Entity (continued)

known as the Food Stamp Program, helps to ensure that no one goes hungry. The First-To-Work, Employment and Training programs provide job readiness, job development, job placement, case management, and other supportive services to ensure that families on public welfare are adequately prepared to end dependency, as well as providing a variety of at-risk youth and family strengthening programs to prevent family dependence. In 2011, the state homeless programs previously administered by the Hawaii Public Housing Authority, was transferred to the division. The division's operations are reported in the general, special revenue, and agency funds.

Child Welfare and Adult Community Care Services: The Social Services Division provides social services programs to ensure the health and safety of those least able to protect themselves from abuse and neglect. The Child Welfare Services (CWS) program provides services to ensure the safety and permanency of children in their own homes or, when necessary, in out-of-home placements. The program is community-based and neighbor-focused with many partnerships and collaborations with the private and public sectors. Services are focused on empowering families and building upon family strengths. When children cannot be safely returned to their family, the CWS program proceeds with permanent placement through adoption, legal guardianship, or other substitute long-term care, including independent living. The program also licenses foster families, boarding homes, group homes, and child placing-organizations. The Adult Protective Services program provides crisis intervention, including investigation and emergency services, to dependent adults who are reported to be abused, neglected, or financially exploited by others or seriously endangered due to self-neglect. The Home and Community-Based Services program provides comprehensive home and community-based services to disabled adults and children to enable them to live in their homes or in the community as long as possible to prevent premature institutionalization. The division's operations are reported in the general, special revenue, and agency funds.

Vocational Rehabilitation and Services for the Blind: The Vocational Rehabilitation and Services for the Blind Division administers programs that provide rehabilitation services to assist eligible persons with disabilities to secure employment and to lead full and independent lives. The Vocational Rehabilitation (VR) program offers vocational evaluation, planning, counseling, treatment, training, job placement, and follow-up services to persons with physical or mental disabilities to enable them to become employed. The economic benefits of the VR program include increased earnings and purchasing power, increased tax revenues, and decreased dependency on public assistance. The Services to the Blind program, called Ho'opono, enables

1. Financial Reporting Entity (continued)

visually impaired adults to attain maximum vocational functional independence by providing varied services including vocational, counseling, assistive technology, and social and independent living skills training. Persons with visual impairment are also assisted in establishing and operating vending facilities. The Disability Determination program determines eligibility for Social Security Disability Insurance and Supplemental Security Income benefits under the federal Social Security Program. The division’s operations are reported in the general, special revenue, and agency funds.

Youth Prevention, Delinquency and Correction Services: The Office of Youth Services (OYS) develops and provides a continuum of services for youth at risk to prevent delinquency and to reduce recidivism through prevention, rehabilitation, and treatment services. Youths’ needs, from prevention to incarceration to aftercare, are addressed through programs such as the Youth Services Centers, the Youth Gang Response System, and Ho’okala Adolescent Diversion as alternative to incarceration through immediate intervention services; non-residential and in-community aftercare services to prevent further incarceration; and community-based residential services as an alternative to incarceration. OYS also manages and operates the Hawaii Youth Correctional Facility (HYCF) to provide safe and secure housing for the most violent and dangerous juvenile offenders. Although a core responsibility of OYS is to manage and operate HYCF, the agency places great emphasis on providing and supporting “front end” prevention, diversion, and intervention services. Incarcerated youth are provided counseling, treatment, and educational services for redirection and rehabilitation. The division’s operations are reported in the general, special revenue, and agency funds.

General Administration: General administration includes the six staff offices that support the DHS administration, operating divisions, and attached agencies. The Administrative Appeals Office (AAO) provides administrative due process hearings for three departmental divisions - Benefit, Employment and Support Services, Med-QUEST, and Social Services. The AAO also serves as the rules coordinator for the DHS and reviews administrative proceedings for the adoption, modification, or repeal of departmental rules. AAO is also responsible for establishing a mediation process for the DHS. The Fiscal Management Office (FMO) provides staff assistance and advisory services for the administrative functions of fiscal management and housekeeping services. FMO formulates policies and procedures and administers the DHS’s central accounting, funds management, client and vendor payment, employee payroll, inventory management, contracting, purchasing, records management, office space allocation, and central mail distribution function. The Audit, Quality Control, and Research Office (AQCRO) conducts

1. Financial Reporting Entity (continued)

audits, research studies, and reviews of the DHS's internal control systems and financial operations to safeguard the DHS's assets. The AQCRO serves to ensure the DHS's compliance with federal laws and regulations in monitoring the use of federal funds for services and benefits to clients. The Budget, Planning, and Management Office (BPMO) conducts studies, analyses, management evaluations, and reviews of departmental programs and operations to ascertain statutory and/or regulatory compliance, appropriate budgetary levels, and achievement of stated goals and objective. Office of Information Technology (OIT) is responsible for the overall administration, planning, direction, management, development, implementation, and maintenance of all information technology and information systems processing for the DHS statewide. The Personnel Office oversees the personnel programs of the DHS, including recruitment, examination, placement, position description, classification and pricing analysis, labor relations, civil rights, employee safety and relations, employee training and development, personnel transactions, and maintenance of personnel records. Those operations are reported in the general and special revenue funds.

Commission on the Status of Women: The commission works for equality for women and girls in the State by acting as a catalyst for positive change through advocacy, education, collaboration, and program development. The commission acts as a central clearinghouse and coordinating body for governmental and nongovernmental activities and information relating to the status of women and creates public awareness and understanding of the responsibilities, needs, potential, and contributions of women and their roles in a changing society. The commission's operations are reported in the general and special revenue funds.

Commission on Fatherhood: The commission promotes healthy relationships between parents and children, emphasizing the important role fathers play in the lives of their children. The commission promotes, fosters, encourages, and financially supports programs designed to educate and train men who are both current and future fathers in effective parenting skills, behaviors and attitudes, strategies for overcoming personal challenges, and opportunities to be productive responsible contributors to their family. The commission's operations are reported in the special revenue fund.

The DHS has considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the DHS are such that exclusion would cause the DHS's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability.

2. Significant Accounting Policies

The basic financial statements of the DHS have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applicable to governmental units. The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

a. Basis of Presentation

The government-wide financial statements, which are the statement of net position and the statement of activities, report information of all of the non-fiduciary activities of the DHS. The effect of interfund activity has been removed from these government-wide financial statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to customers who purchase, use, or directly benefit from goods or services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. State allotments and other items properly excluded from program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than program revenues.

The financial activities are recorded in individual funds, each of which is deemed to be a separate accounting entity. The DHS uses fund accounting to report on its financial position and results of operations. Fund accounting is designed to demonstrate the legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

Separate financial statements are provided for governmental funds and fiduciary funds. However, the fiduciary funds are not included in the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

2. Significant Accounting Policies (continued)

a. Basis of Presentation (continued)

The financial activities of the DHS that are reported in the accompanying fund financial statements have been classified into the following major governmental funds. In addition, a description of the DHS's fiduciary fund is as follows:

i. Governmental Fund Types

The DHS reports the following major governmental funds:

General Fund
The general fund is the general operating fund of the DHS. It is used to account for all financial activities except those required to be accounted for in another fund. The annual operating budget as authorized by the State Legislature provides the basic framework within which the resources and obligations of the general fund are accounted.

Special Revenue Funds
The Special Revenue Funds are used to account and report the proceeds of specific revenue sources that are legally restricted or committed to expenditure for specific purposes other than debt service or capital projects. The Special Revenue Funds are as follows:

Med-QUEST - accounts for the programs related to the health care programs of the State.

Human Services - accounts for social services programs, which include public welfare and eligibility and disability determination.

ii. Fiduciary Fund Type

Trust and Agency Funds
Trust and agency funds account for various assets held by the DHS in a trustee capacity or as an agent for individuals, private organizations, other governmental agencies or other funds.

2. Significant Accounting Policies (continued)

b. Measurement Focus and Basis of Accounting

Government-wide Financial Statements - The government-wide financial statements 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 have been met.

Governmental Funds Financial Statements - The governmental funds financial statements are reported using the current financial resources management 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 DHS considers revenues other than federal grants and assistance awards to be available if they are collected within 60 days of the end of the current fiscal year. Revenues susceptible to accrual include federal grants and funds appropriated by the State Legislature and allotted by the Governor. Expenditures are generally recorded when the related fund liabilities are incurred.

Federal grants and assistance awards made on the basis of entitlement periods are recorded as revenue when available and entitlement occurs which is generally within 12 months of the end of the current fiscal year. All other federal reimbursement-type grants are recorded as intergovernmental receivables and revenues when the related expenditures or expenses are incurred as of fiscal year-end and funds are available.

Expenditures are generally 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.

Encumbrances are recorded obligations in the form of purchase orders or contracts. The State records encumbrances at the time purchase orders or contracts are awarded and executed. Encumbrances outstanding at fiscal year-end do not constitute expenditures or liabilities.

2. Significant Accounting Policies (continued)

b. Measurement Focus and Basis of Accounting (continued)

Fiduciary Funds - Fiduciary funds are used to account for resources held by the DHS as an agent for individuals, private organizations, other governmental agencies, and/or other funds. Fiduciary funds are custodial in nature (i.e., assets equal liabilities) and do not involve measurement of results of operations. The private purpose trust fund is used to account for donations received by the DHS which are used to benefit clients of the Ho'opono, Services for the Blind Program under the Vocational Rehabilitation and Services for the Blind division.

c. Use of Estimates

The preparation of the basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

d. Receivables

Receivables in the general and special revenue funds consist primarily of amounts due from Medicaid providers and drug rebates from manufacturers. The amounts reported as net receivables were established based on management's estimate of amounts collectible.

e. Capital Assets

Capital assets include land and land improvements, infrastructure assets, buildings and improvements, equipment, and all other tangible and intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period are reported in the government-wide financial statements. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at their estimated fair market value at the date of donation.

2. Significant Accounting Policies (continued)

e. Capital Assets (continued)

Maintenance and repairs are charged to operations when incurred. Betterments and major improvements which significantly increase values, change capacities, or extend useful lives are capitalized. Upon sale or retirement of capital assets, the cost and the related accumulated depreciation, as applicable, are removed from the respective accounts, and any resulting gain or loss is recognized in the statement of activities. Capital assets are depreciated using the straight-line method over the useful lives below.

The State has adopted the following capitalization policy:

	Minimum Capitalization Amount	Estimated Useful Life
Land	All	Not applicable
Land improvements	$ 100,000	15 years
Buildings and improvements	100,000	30 years
Furniture and equipment	5,000	7 years
Motor vehicles	5,000	5 years
Computer software internally generated	1,000,000	5-15 years

f. Compensated Absences

The DHS permits employees to accumulate earned but unused vacation and sick leave benefits. There is no liability for unpaid accumulated sick leave since sick leave is not convertible to pay upon termination of employment. All vacation pay is accrued when incurred. Employees are credited with vacation at the rate of 168 hours per calendar year. Accumulation of such vacation credits is limited to 720 hours at calendar year-end and is convertible to pay upon termination of employment. Such accumulated vacation has been accrued and reflected in the statement of net assets.

2. Significant Accounting Policies (continued)

g. Due to Individuals

Due to individuals represents assets held by the DHS primarily in an agent capacity and is available to individuals receiving benefits under various programs primarily through the Electronic Benefits Transfer System.

h. Appropriations

Appropriations represent the authorizations granted by the State Legislature that permit a state agency, within established fiscal and budgetary controls, to incur obligations and to make expenditures. Appropriations are allotted quarterly. The allotted appropriations lapse if not expended by or encumbered at the end of the fiscal year.

i. Operating Grants and Contributions

Federal grants and assistance awards are recorded as intergovernmental receivables and revenues when all eligibility requirements have been satisfied.

j. Intrafund and Interfund Transactions

Significant transfers of financial resources between activities included within the same fund are offset within that fund.

k. Fund Balance

In the governmental fund financial statements, fund balances are classified using a hierarchy based on the extent to which the DHS is bound to follow constraints on the specific purposes for which amounts in the funds may be spent.

The DHS reports the following classifications:

Restricted Fund Balance **-** Restricted fund balances are restricted to specific purposes which are usually imposed by external parties such as grantors, contributors, or laws or regulations of other governments.

Committed Fund Balance **-** Committed fund balances are amounts that can only be used for specific purposes pursuant to formal action of the State Legislature.

2. Significant Accounting Policies (continued)

k. Fund Balance (continued)

Assigned Fund Balance - Assigned fund balances are amounts that are constrained by the State's intent to be used for specific purposes, but are neither restricted or committed. The State Legislature authorizes the amounts to specific purposes through the budgetary process. Assigned amounts within general fund include non-liquidated encumbrances at year end that are carried forward to the next fiscal year.

Unassigned Fund Balance - Unassigned fund balance is the residual classification for the General Fund. This classification represents General Fund balance that has not been assigned to other funds, and that has not been restricted or assigned to specific purposes within the General Fund.

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

l. Net Position

Net position is restricted when constraints placed on them are either externally imposed or imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net position. When both restricted and unrestricted resources are available for use, it is generally the DHS's policy to use restricted resources first, then unrestricted resources as they are needed.

m. Risk Management

The DHS is exposed to various risks for losses related to torts; theft of, damage to, or destruction of assets; errors or omissions; natural disasters; and injuries to employees. A liability for a claim for a risk of loss is established if information indicates that it is probable that a liability has been incurred at the date of the basic financial statements and the amount of the loss is reasonably estimable.

2. Significant Accounting Policies (continued)

n. 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 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 does have the duty of due care that would be required of an ordinary prudent investor. Accordingly, the assets and liabilities of the State's deferred compensation plan are not reported in the State's or the DHS's basic financial statements.

o. Recent Accounting Pronouncements

In June 2015, the GASB issued Statement No. 73 (GASB 73), *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. GASB 73 applies the accounting and financial reporting established in GASB 68 to all defined benefit and defined contribution pensions that are not within the scope of GASB 68. GASB 73 was effective for the DHS's financial statements for the year ending June 30, 2017. This Statement has no impact on the DHS's financial statements.

In June 2015, the GASB issued Statement No. 75 (GASB 75), *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. GASB 75 amends the accounting guidance related to employers' accounting for postemployment benefits other than pension (other postemployment benefits or OPEB) administered through trusts that meet specified criteria. GASB 75 establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenditures related to OPEB. Note disclosures and required supplementary information are addressed by the statement. GASB 75 will be effective for the DHS's financial statements for the year ending June 30, 2018. The DHS has not yet determined the effect this statement will have on its financial statements.

2. Significant Accounting Policies (continued)

o. Recent Accounting Pronouncements (continued)

In March 2016, the GASB issued Statement No. 82 (GASB 82), *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*. GASB 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. GASB 82 was effective for the DHS's financial statements for the year ending June 30, 2017, with earlier adoption permitted. The adoption of this Statement did not have a significant impact on the DHS's financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to establish a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thus enhancing the relevance and consistency of information reported about the government's leasing activities. The provisions of this Statement are effective for the period beginning after December 15, 2019. The DHS has not yet determined the effect this statement will have on its financial statements.

3. Budgeting and Budgetary Control

Revenue estimates are provided to the State Legislature at the time of budget consideration and are revised and updated periodically during the fiscal year. Amounts reflected as budgeted revenues in the statement of revenues and expenditures - budget and actual (budgetary basis) - are those estimates as compiled by the Council on Revenues and the Director of Finance. Budgeted expenditures are derived primarily from the Appropriations Act of 2016 (Act 124, SLH 2016), and from other authorizations contained in the State Constitution, Hawaii Revised Statutes, and other specific appropriation acts in various Session Laws of Hawaii (SLH).

All expenditures of these appropriated funds are made pursuant to the appropriations in the fiscal 2015 - 2017 biennial budget. The general and special revenue funds have legally appropriated annual budgets.

3. Budgeting and Budgetary Control (continued)

The final legally adopted budget in the accompanying statement of revenues and expenditures - budget and actual (budgetary basis) - general and special revenue funds represents the original appropriations, transfers, and other legally authorized legislative and executive changes.

The legal level of budgetary control is maintained at the appropriation line item level by department, program, and source of funds as established in the appropriations act. The Governor is authorized to transfer appropriations between programs within the same department and source of funds; however, transfers of appropriations between departments generally require legislative authorization. Records and reports reflecting the detail level of control are maintained by and are available at the State Department of Accounting and General Services. During the fiscal year ended June 30, 2017, there were no expenditures in excess of appropriations in the individual funds.

To the extent not expended or encumbered, general fund appropriations generally lapse at the end of the fiscal year for which the appropriations are made. The State Legislature specifies the lapse dates and any other contingencies which may terminate the authorizations for other appropriations.

Budgets adopted by the State Legislature for the general and special revenue funds are presented in the accompanying statement of revenues and expenditures - budget and actual (budgetary basis). The DHS's annual budget is prepared on the cash basis of accounting except for the encumbrance of purchase orders and contract obligations (basis difference), which is a departure from GAAP.

The following schedule reconciles the budgetary amounts to the amounts presented in accordance with GAAP for the fiscal year ended June 30, 2017:

3. Budgeting and Budgetary Control (continued)

	General	Med QUEST	Human Services
Excess of revenues and other sources over expenditures - actual on a budgetary basis	$ 12,998,153	$ 68,716,315	$ 95,962,453
Current year's appropriations encumbered at fiscal year-end	94,518,854	28,175,687	13,044,282
Expenditures for liquidation of prior fiscal year encumbrances	(139,628,524)	(159,909,121)	(157,265,279)
Net changes in liabilities	(708,126)	(4,560,727)	6,406,,888
Net change in accrued medical assistance payable	49,616,493	23,273,772	-
Accruals related to federal reimbursements for program expenditures	(14,018,287)	(27,173,027)	41,191,314
Net change in other receivables	(2,813,159)	(60,213)	(460,464)
Difference for revenues recognized for GAAP purposes	14,018,285	71,537,314	989,481
Net change in fund balances - GAAP basis	$ 13,983,689	$ -	$ (131,325)

4. Cash and Cash Equivalents

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.

4. Cash and Cash Equivalents (continued)

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 DHS. However, as the DHS's monies are held in the State cash pool, the DHS 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. Receivables

Receivables of the DHS, net of an allowance for doubtful accounts, consisted of the following at June 30, 2017:

	General	Med-QUEST	Human Services
Welfare benefit overpayments	$ 23,452,646	$ 2,180,536	$ 25,976,143
Drug rebate receivable	-	52,233,300	-
Medicaid providers receivable	9,800,000	-	-
Medicaid assistance receivable	4,618,549	968,626	-
Social Security interim assistance loans	1,084,440	-	-
CSEA receivable	74,867	-	-
	39,030,502	55,382,462	25,976,143
Less allowance for doubtful accounts:			
Welfare benefit overpayments	22,132,242	2,057,770	24,513,664
Medicaid providers receivable	1,900,000	-	-
	24,032,242	2,057,770	24,513,664
Receivables, net	$ 14,998,260	$ 53,324,692	$ 1,462,479

6. Interfund Receivable and Payable

The general fund had a net receivable due from the special revenue funds totaling $175,252,246 as of June 30, 2017, for federal reimbursements of program expenditures. The Med-QUEST and Human Services special revenue funds had a payable to the general fund totaling $135,851,711 and $39,400,535, respectively, as of June 30, 2017, for federal reimbursements of program expenditures.

7. Capital Assets

	Balance July 1, 2016	Additions	Disposals	Other	Balance June 30, 2017
Depreciable Assets:					
Building and improvements	$ 56,623,158	$ 2,083,103	$ -	$ 2	$ 58,706,263
Furniture and equipment	34,212,000	89,464	(347,382)	8,791	33,962,873
Motor vehicles	1,643,328	31,714	(13,000)	-	1,662,042
Intangible assets – software	151,229,434	2,457,702	-	-	153,687,136
Non-Depreciable Assets--					
Land	6	-	-	-	6
Total at historical cost	243,707,926	4,661,983	(360,382)	8,793	248,018,320
Less Accumulated Depreciation/ Amortization:					
Building and improvements	30,747,395	1,811,670	-	206,436	32,765,501
Furniture and equipment	33,951,676	117,425	(342,712)	(9,197)	33,717,192
Motor vehicles	1,698,673	71,423	(13,000)	(154,876)	1,602,220
Intangible assets - software	49,144,268	24,530,471	-	-	73,674,739
Total accumulated depreciation/ amortization	115,542,012	26,530,989	(355,712)	42,363	141,759,652
Capital sssets, net	$ 128,165,914	$ (21,869,006)	$ (4,670)	$ (33,570)	$ 106,258,668

7. Capital Assets (continued)

Depreciation expense for the fiscal year ended June 30, 2017 was charged to functions/programs of the DHS as follows:

	Governmental Activities
Health care programs	$ 24,732,231
General welfare assistance, employment and support services	588,457
Child welfare and adult community care services	190,427
Vocational rehabilitation and services for the blind	134,369
Youth prevention, delinquency and correction services	767,216
General administration	118,289
	$ 26,530,989

8. Accrued Compensated Absences

The long-term liability of the DHS for governmental activities consisted of accrued compensated absences. The change in the long-term liability during the fiscal year ended June 30, 2017, was as follows:

	Amount
Balance at July 1, 2016	$ 13,891,716
Additions	7,615,979
Reductions	(7,460,669)
Balance at June 30, 2017	14,047,026
Less current portion	(5,305,000)
	$ 8,742,026

9. Fund Balance

Fund balance constraints by purpose as of June 30, 2017 were as follows:

	General	Med-QUEST Special Revenue Fund	Human Services Special Revenue Fund	Total
Committed:				
Commission on the status of women / commission on fatherhood	$ -	$ -	$ 3,363	$ 3,363
Child welfare and adult community care	-	-	1,265,327	1,265,327
Vocation rehabilitation	-	-	1,312,700	1,312,700
Total – committed	-	-	2,581,390	2,581,390
Assigned:				
Human services	105,889,554	-	-	105,889,554
Total – assigned	105,889,554	-	-	105,889,554
Total fund balances	$105,889,554	$ -	$ 2,581,390	$108,470,944

10. 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, 2017, were as follows:

	Balance July 1, 2016	Additions	Deductions	Balance June 30, 2017
Assets --				
Cash	$ 2,209,004	$ 93,898,505	$ 93,841,086	$ 2,266,423
Liabilities --				
Due to individuals and others	$ 2,209,004	$ 93,898,505	$ 93,841,086	$ 2,266,423

11. Non-Imposed Employee Fringe Benefits

Payroll fringe benefit costs of the DHS's employees that are funded by state appropriations (general fund) are assumed by the State and are not charged to the DHS's operating funds. These costs, totaling approximately $26,226,000 for the fiscal year ended June 30, 2017, have been reported as revenues and expenditures in the general fund of the DHS.

Payroll fringe benefit costs related to federally-funded salaries are not assumed by the State and are recorded as expenditures in the special revenue funds of the DHS.

12. Leases

The DHS leases office facilities under various operating leases expiring through 2025. Certain leases include renewal and escalation clauses. The DHS's general fund share of lease costs is paid from the State General Fund. The federal share of these lease costs allocable to programs is reported in the special revenue fund of the DHS. The following is a schedule of the approximate minimum future lease commitments for non-cancelable operating leases as of June 30, 2017:

Fiscal Year Ending June 30,	Amount
2018	2,002,000
2019	1,874,000
2020	1,776,000
2021	1,460,000
2022	1,022,000
2022 - 2025	1,232,000
	$ 9,366,000

The DHS's rent expenditures for operating leases for the fiscal year ended June 30, 2017, amounted to approximately $2,225,000, and is included in the accompanying financial statements.

13. Retirement Benefits

Employees' Retirement System

All eligible employees of the DHS are required by Chapter 88, Hawaii Revised Statutes (HRS), to become members of the Employees' Retirement System of the State of Hawaii (ERS), a cost-sharing multiple-employer public employee retirement plan. The ERS provides retirement benefits as well as death and disability benefits. The ERS is governed by a Board of Trustees. All contributions, benefits, and eligibility requirements are established by HRS Chapter 88 and can be amended by legislative action. The ERS issues an annual comprehensive annual financial report that is available to the public. For more information on the State's benefit plans, refer to the State of Hawaii Comprehensive Annual Financial Report (CAFR) and the ERS CAFR. The State's CAFR can be found at the Department of Accounting and General Services' website: http://ags.hawaii.gov/accounting/annual-financial-reports/. The ERS CAFR can be found at the ERS website: http://ers.ehawaii.gov/resources/financials.

Prior to June 30, 1984, the plan consisted of only a contributory plan. In 1984, legislation was enacted to add a new noncontributory plan for members of the ERS who are also covered under Social Security. Police officers, firefighters, judges, elected officials, and persons employed in positions not covered by Social Security are precluded from the noncontributory plan. The noncontributory plan provides for reduced benefits and covers most eligible employees hired after June 30, 1984. Employees hired before that date were allowed to continue under the contributory plan or to elect the new noncontributory plan and receive a refund of employee contributions. All benefits vest after five and ten years of credited service under the contributory and noncontributory plans, respectively.

Both plans provide a monthly retirement allowance based on the employee's age, years of credited service, and average final compensation (AFC). The AFC is the average salary earned during the five highest paid years of service, including the vacation payment, if the employee became a member prior to January 1, 1971. The AFC for members hired on or after that date is based on the three highest paid years of service excluding the vacation payment.

On July 1, 2006, a new hybrid contributory plan became effective pursuant to Act 179, SLH of 2004. Members in the hybrid plan are eligible for retirement at age 62 with 5 years of credited service or age 55 and 30 years of credited service. Members receive a benefit multiplier of 2% for each year of credited service in the hybrid plan. The benefit plan options are similar to the current contributory plan. Almost 58,000 current members, all members of the noncontributory plan and certain members of the contributory plan were eligible to join the new hybrid plan. Most of the new employees hired from July 1, 2006, were required to join the hybrid plan.

13. Retirement Benefits (continued)

Covered employees of the contributory plan who became members as of June 30, 2012 or after June 30, 2012 are required to contribute 7.8% or 9.8% of their salary, respectively. Police officers, firefighters, investigators of the departments of the County Prosecuting Attorney and the Attorney General, narcotics enforcement investigators, and public safety investigators who became members as of June 30, 2012 or after June 30, 2012 are required to contribute 12.2% or 14.2% of their salary, respectively. Covered employees of the hybrid plan who became members as of June 30, 2012 or after June 30, 2012 are required to contribute 6% or 8% of their salary, respectively. The funding method used to calculate the total employer contribution requirement is the Entry Age Normal Actuarial Cost Method. Effective July 1, 2005, employer contribution rates are a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liability.

The actuarial valuation of the ERS does not provide pension information by department or agency. Accordingly, the State's policy on the accounting and reporting for pension benefits is to allocate a portion of the net pension liability, pension expense, and deferred inflows and outflows of resources required under GASB Statement No. 68 only 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 number of covered employees for each component unit and proprietary fund for pension benefits. As such, no such allocation of the net pension liability is reported.

Contributions are established by HRS Chapter 88 and may be amended through legislature. The employer rate is set by statue based on the recommendations of the ERS actuary resulting from an experience study conducted every five years. The DHS's general fund share of the expense for pension benefits for the fiscal years ended June 30, 2017, 2016, and 2015 was paid from the State General Fund and totaled approximately $9,659,000, $8,757,000, and $8,677,000, respectively. The DHS's federal share of pension benefits expense for the fiscal years ended June 30, 2017, 2016, and 2015 was approximately $4,531,000, $4,945,000, and $4,329,000, respectively. The employer contribution rate for the fiscal years ended June 30, 2017, 2016, and 2015 was 17.00 %, 17.00%, and 16.50%, respectively.

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

13. Retirement Benefits (continued)

Post-Retirement Health Care and Life Insurance Benefits

The State provides certain health care and life insurance benefits to all qualified employees. Pursuant to Act 88, SLH 2001, the State of Hawaii contributes to the Hawaii Employer-Union Health Benefits Trust Fund (EUTF), an agent multiple-employer plan that replaced the Hawaii Public Employees Health Fund effective July 1, 2003. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees and their dependents. The EUTF issues an annual financial report that is available to the public. The report may be obtained by writing to the EUTF at P.O. Box 2121, Honolulu Hawaii 96805-2121.

For employees hired before July 1, 1996, the State pays the entire monthly contribution for employees retiring with 10 or more years of credited service, and 50% of the base monthly contribution for employees retiring with fewer than 10 years of credited service. A retiree can elect a family plan to cover dependents.

For employees hired after June 30, 1996 but before July 1, 2001, and who retire with less than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For those employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Retirees in this category can elect a family plan to cover dependents.

For employees hired on or after July 1, 2001, and who retire with less than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For those employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Only single plan coverage is provided for retirees in this category. Retirees can elect family coverage but must pay the difference.

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 only 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 number of covered employees for each component unit and proprietary fund.

13. Retirement Benefits (continued)

Contributions are based on negotiated collective bargaining agreements and are limited by State statute to the actual cost of benefit coverage. The DHS's share of the expense for post-retirement health care and life insurance benefits for the fiscal years ended June 30, 2017, 2016, and 2015, was approximately $6,736,000, $7,548,000, and $8,031,000, respectively.

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

14. Risk Management

The DHS is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; and workers' compensation. The State records a liability for risk financing and insurance related losses 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. The excess layers insured with commercial insurance companies are consistent with the prior fiscal year. Settled claims have not exceeded the coverage provided by commercial insurance companies in any of the past three fiscal years. A summary of the State's underwriting risks is as follows:

Property Insurance

The State has an insurance policy with a variety of insurers in a variety of layers for property coverage. The deductible for coverage is 3% of loss subject to a $1 million per occurrence minimum. This policy includes windstorm, earthquake, flood damage, terrorism, and boiler and machinery coverage. The limit of loss per occurrence is $200 million, except for terrorism which is $50 million per occurrence.

The State also has a crime insurance policy for various types of coverages with a limit of loss of $10 million per occurrence with a $500,000 deductible per occurrence, except for claims expense coverage which has a $100,000 per occurrence and a $1,000 deductible. Losses not covered by insurance are paid from legislative appropriations of the State's General Fund.

14. Risk Management (continued)

General Liability (including torts)

Claims under $10,000 are handled by the risk management office of the Department of Accounting and General Services. All other claims are handled by the Department of the Attorney General. The State has personal injury and property damage liability, including automobile and public errors and omissions, insurance policy in force with a $4 million self-insured retention per occurrence. The annual aggregate per occurrence is $5 million and for crime loss, $10 million with no aggregate limit.

Losses under the deductible amount or over the aggregate limit are paid from legislative appropriations of the State's General Fund.

Self-Insured Risks

The State generally self-insures its automobile no-fault and workers' compensation losses. Automobile losses are administered by third-party administrators. The State administers its workers' compensation losses. 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.

At June 30, 2017, the State recorded an estimated loss for workers' compensation, automobile and general liability claims as long-term debt 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 DHS's portion of the State's workers' compensation expense for the fiscal year ended June 30, 2017, was approximately $484,474.

15. Commitments and Contingencies

Encumbrances

Encumbrances as of June 30, 2017 were as follows:

Fund	Amount
General	$ 98,156,588
Med-QUEST	29,913,299
Human Services	19,955,481
Total	$ 148,025,368

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 DHS 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 ERS. At June 30, 2017, accumulated sick leave was approximately $40 million.

Litigation

From time to time, the DHS is named as a defendant in various legal proceedings. Although the DHS and its counsel are unable to express opinions as to the outcome of the litigation, it has been the State's historical practice that certain types of judgments and settlements against an agency of the State are paid from the State General Fund through an appropriation bill which is submitted annually by the Department of the Attorney General to the State Legislature.

There are instances in which claims asserted against the DHS are paid directly from funds appropriated to the DHS. As of June 30, 2017, the DHS recorded a $7.1 million related to such claims in the statement of net position.

16. Related Party Transactions

The DHS had various amounts due to the State totaling $179,018,786 as of June 30, 2017, which included federal reimbursements for program expenditures totaling $151,425,439, receivables totaling $27,444,701, and cash held outside of the State Treasury totaling $148,646.

SUPPLEMENTARY INFORMATION

Department of Human Services
State of Hawaii

Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures	Amount Provided to Subrecipient
U.S. Department of Health and Human Services:				
Other Programs				
ACL Independent Living State Grants	93.369		$ 310,384	$ -
ACL Assistive Technology	93.464		371,006	371,006
Promoting Safe and Stable Families	93.556		1,236,930	950,672
Refugee and Entrant Assistance - State Administered Programs	93.566		4,907	-
Low-Income Home Energy Assistance	93.568		5,659,478	-
U.S. Repatriation Program	93.579		3,830	-
Chaffee Education and Training Vouchers Program (ETV)	93.599		78,591	-
Children's Justice Grants to States	93.643		111,798	111,062
Stephanie Tubbs Jones Child Welfare Services Program	93.645		865,550	-
Foster Care - Title IV-E	93.658		16,530,095	-
Adoption Assistance	93.659		15,252,934	-
Guardianship Assistance	93.090		2,044,679	-
Social Services Block Grant	93.667		15,054,520	14,768,646
Family Violence Prevention and Services / Grants for Battered Women's Shelters - Grants to States and Indian Tribes	93.671		890,474	758,654
Chafee Foster Care Independence Program	93.674		433,561	348,714
Elder Justice Innovation Grants	93.747		37,241	-
Children's Health Insurance Program	93.767		58,534,920	-
Money Follows a Person	93.791		231,617	-
Medicaid Incentives for Prevention of Chronic Diseases	93.536		359,068	-
Total Others			118,011,583	17,308,754
TANF Cluster				
Temporary Assistance for Needy Families	93.558		45,189,214	4,047,903
Total TANF Cluster			45,189,214	4,047,903
Medicaid Cluster				
State Survey and Certification of Health Care Providers	93.777		740,282	-
Medical Assistance Program	93.778		1,568,572,071	-
Total Medicaid Cluster			1,569,312,353	-
CCDF Cluster				
Child Care and Development Block Grant	93.575		9,642,815	5,254,118
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596		15,438,125	-
Total CCDF Cluster			25,080,940	5,254,118
Total U.S. Department of Health and Human Services			$ 1,757,594,090	$ 26,610,775

See independent auditor's report and accompanying notes to the schedule of expenditures of federal awards.

Department of Human Services
State of Hawaii

Schedule of Expenditures of Federal Awards (continued)
For the Fiscal Year Ended June 30, 2017

	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures	Amount Provided to Subrecipient
U.S. Department of Agriculture:				
SNAP Cluster				
Supplemental Nutrition Assistance Program	10.551		$ 483,083,473	$ -
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561		20,061,698	1,454,278
Total SNAP Cluster			503,145,171	1,454,278
Child Nutrition Cluster				
National School Lunch Program	10.555		3,224	-
School Breakfast Program	10.553		2,428	-
Total Child Nutrition Cluster			5,652	-
Total U.S. Department of Agriculture			503,150,823	1,454,278
U.S. Department of Housing and Urban Development:				
Emergency Solutions Grants Program	14.231		506,092	492,818
Housing Opportunities for Persons with AIDS	14.241		184,869	178,889
Continuum of Care Program	14.267		1,619,799	1,619,799
Total U.S. Department of Housing and Urban Development			2,310,760	2,291,506
U.S. Department of Justice:				
Juvenile Justice and Delinquency Prevention - Allocation to States	16.540		658,499	590,479
Juvenile Accountability Block Grant	16.523		135,017	135,017
Total U.S. Department of Justice			793,516	725,496
U.S. Department of Labor:				
Pass-through State Department of Labor and Industrial Relations Senior Community Service Employment Program	17.235	PY16-SCSEP-CC-DHS	199,875	-
WIA Pilots, Demonstration, and Research Projects	17.261		113,181	-
Total U.S. Department of Labor			$ 313,056	$ -

See independent auditor's report and accompanying notes to the schedule of expenditures of federal awards.

Department of Human Services
State of Hawaii

Schedule of Expenditures of Federal Awards (continued)
For the Fiscal Year Ended June 30, 2017

	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures	Amount Provided to Subrecipient
Corporation for National and Community Service --				
Foster Grandparent/Senior Companion Cluster				
Foster Grandparent Program	94.011		$ 452,291	$ -
Senior Companion Program	94.016		347,360	-
Total Foster Grandparent/Senior Companion Cluster			799,651	-
Total Corporation for National and Community Service			799,651	-
Social Security Administration --				
Disability Insurance/SSI Cluster				
Social Security - Disability Insurance	96.001		6,383,657	-
Total Disability Insurance/SSI Cluster			6,383,657	-
Total Social Security Administration			6,383,657	-
U.S. Department of the Interior--				
Pass-through the State Governor's Office				
Economic, Social, Political Developments of the territories	15.875	Hawaii-Cl-2017-1	12,610,392	-
Total U.S. Department of the Interior			12,610,392	-
U.S. Department of Education:				
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126		17,514,469	-
Rehabilitation Services - Independent Living Services for Older Individuals Who are Blind	84.177		213,153	-
Supported Employment Services for Individuals with the most Significant Disabilities	84.187		253,887	-
Total U.S. Department of Education			17,981,509	-
TOTAL FEDERAL EXPENDITURES			$ 2,301,937,454	$ 31,082,055

See independent auditor's report and accompanying notes to the schedule of expenditures of federal awards.

Department of Human Services
State of Hawaii

Notes to the Schedule of Expenditures of Federal Awards
June 30, 2017

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the Department of Human Services (DHS) and is presented on the cash basis of accounting. The information in this schedule is presented in accordance 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). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. Transfers

Grand awards totaling $9,857,840 were transferred from CFDA 93.558 Temporary Assistance for Needy Families to CFDA 93.667 Social Services Block Grant.

3. Supplemental Nutrition Assistance Program

Expenditures reported in the Schedule represent assistance utilized through the Electronic Benefits Transfer System.

4. Indirect Cost

The DHS has not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

PART II

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

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

Office of 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, each major fund, and the aggregate remaining fund information of the Department of Human Services of the State of Hawaii (DHS), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the DHS's basic financial statements, and have issued our report thereon dated March 21, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the DHS'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 DHS's internal control. Accordingly, we do not express an opinion on the effectiveness of the DHS'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 a deficiency

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in internal control, described in the accompanying *Schedule of Findings and Questioned Costs* as item 2017-001, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the DHS'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying *Schedule of Findings and Questioned Costs* as items 2017-002 through 2017-014.

The DHS's Response to Findings

The DHS's response to the findings identified in our audit are described in the accompanying Corrective Action Plan. The DHS'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.

KMH LLP

KMH LLP

Honolulu, Hawaii
March 21, 2018

PART III

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance Required by the Uniform Guidance

Independent Auditor's Report

Office of the Auditor
State of Hawaii

Report on Compliance for Each Major Federal Program

We have audited the Department of Human Services of the State of Hawaii's (DHS') compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the DHS's major federal programs for the year ended June 30, 2017. The DHS's major federal programs are identified in the summary of the auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the DHS'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 the audit 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). Those standards and the Uniform Guidance 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 DHS'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 qualified and unmodified opinions on compliance for each major federal program. However, our audit does not provide a legal determination of the DHS's compliance.

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Basis for Qualified Opinion on the Major Federal Programs Identified in the Table Below

As described in Findings 2017-002 through 2017-014 in the accompanying *Schedule of Findings and Questioned Costs*, the DHS did not comply with requirements regarding the following:

Finding #	CFDA #	Program (or Cluster) Name	Compliance Requirement
2017-002	93.777, 93.778	Medicaid Cluster	Eligibility
2017-003	93.777, 93.778	Medicaid Cluster	Eligibility
2017-004	84.126	Vocational Rehabilitation	Eligibility
2017-005	84.126	Vocational Rehabilitation	Special Tests and Provisions – Completion of IPEs
2017-006	84.126	Vocational Rehabilitation	Eligibility
2017-007	93.575, 93.596	CCDF Cluster	Eligibility
2017-008	93.659	Adoption Assistance	Activities Allowed and Allowable Costs
2017-009	15.875	Economic, Social, and Political Development of the Territories	Eligibility
2017-010	93.667	Social Services Block Grant	Earmarking
2017-011	93.667	Social Services Block Grant	Subrecipient Monitoring
2017-012	93.558	TANF Cluster	Special Tests and Provisions – Child Support Non-Cooperation
2017-013	93.558	TANF Cluster	Reporting
2017-014	93.558	TANF Cluster	Eligibility

Compliance with such requirements is necessary, in our opinion, for the DHS to comply with the requirements applicable to that program.

Qualified Opinion on the Major Federal Programs in the Table Above

In our opinion, except for the noncompliance described in Basis for Qualified Opinion paragraph, the DHS 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 paragraph for the year ended June 30, 2017.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the DHS 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 year ended June 30, 2017.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2017-015. Our opinion on each major federal program is not modified with respect to these matters.

The DHS's responses to the noncompliance findings identified in our audit are described in the accompanying Corrective Action Plan. The DHS's responses were 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 DHS 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 DHS'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 program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 DHS'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 a 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 items 2017-002 through 2017-014 to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or 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 items 2017-016 through 2017-018 to be a significant deficiency.

The DHS's responses to the internal control over compliance findings identified in our audit are described in the accompanying Corrective Action Plan. The DHS's responses were 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

KMH LLP

KMH LLP

Honolulu, Hawaii
March 21, 2018

PART IV

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Department of Human Services
State of Hawaii

Schedule of Findings and Questioned Costs
June 30, 2017

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 that are not considered to be material weaknesses?	√ Yes	___ None reported
Noncompliance material to financial statements noted?	___ Yes	√ No

Federal Awards

Internal control over major programs:

• Material weakness(es) identified?	√ Yes	___ No
• Significant deficiency(ies) identified?	√ Yes	___ None reported

Type of auditor's report issued on compliance for major federal programs: Qualified for all major programs except for Low Income Home Energy Assistance, which is unmodified.

Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a)	√ Yes	___ No

Department of Human Services
State of Hawaii

Schedule of Findings and Questioned Costs (continued)
June 30, 2017

Section I – Summary of Auditor's Results (continued)

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
15.875	Economic, Social, and Political Development of the Territories
84.126	Vocational Rehabilitation
93.558	TANF Cluster
93.568	Low Income Home Energy Assistance
93.575, 93.596	CCDF Cluster
93.659	Adoption Assistance
93.667	Social Services Block Grant
93.777, 93.778	Medicaid Cluster

Dollar threshold used to distinguish between type A and type B programs: $6,905,812

Auditee qualified as low-risk auditee? ___ Yes _√_ No

Section II – Financial Statement Findings

Finding No.: 2017-001 **Proper Capitalization of Intangible Assets**

Type of Finding: Significant Deficiency

Criteria: Governmental Accounting Standards Board (GASB) Statement No. 51, Accounting and Reporting for Intangible Assets, establishes standards of accounting and financial reporting for intangible assets. According to GASB Statement No. 51 paragraphs 9 & 10, computer software that is developed in-house by a third-party contractor on behalf of the government is considered internally generated. The activities involved in developing and installing internally generated computer software are grouped into the following stages:

- Preliminary Project Stage – This stage includes conceptual formulation and evaluation of alternatives, determination of the existence of needed technology, and final selection of alternatives for the development of the software. Outlays associated with the preliminary project stage are expensed as incurred.
- Application Development Stage – This stage includes design of the chosen path (including software configuration and software interfaces), coding, installation to hardware, and testing (including parallel processing phase). Outlays related to activities in the application development stage should be capitalized in the financial statements using the accrual basis of accounting. The capitalization stops when the computer software is substantially complete and operational.
- Post-implementation/Operation Stage – This stage includes application training and software maintenance. Outlays associated with activities in the post-implementation/operation stage are expensed as incurred.

Condition: Subsequent to the completion of the development of the KOLEA software, we noted approximately $24 million of operation and maintenance expenditures were incorrectly capitalized. We proposed and management accepted audit adjustments to correct the errors and the related amortization expense of approximately $4 million.

Context: The Med-Quest Division, in the process of preparing its financial statements, capitalized and amortized items that were related to operation and maintenance that did not meet the criteria for capitalization.

Cause: We noted the errors were due to financial information being prepared by personnel who were unfamiliar with the financial reporting requirements. In addition, an independent review of the related schedule was not performed due to miscommunication between the accounting staff and management.

Section II – Financial Statement Findings (continued)

Finding No.: 2017-001 Financial Statement Reporting (continued)

Effect: The incorrect capitalization resulted in the initial management-prepared financial information being misstated.

Recommendations: We recommend the Med-Quest Division implement formal procedures to ensure management reviews the financial information related to the capitalization of intangible assets being included in the financial statements.

Views of responsible officials: The Department agrees with the finding and will implement corrective action. Please refer to the corrective action plan on pages 119-136.

Section III – Federal Award Findings and Questioned Costs

Finding No.: 2017-002	**Complete Eligibility Applications and Annual Eligibility Re-Verifications in a Timely Manner**
Federal Agency:	U.S Department of Health and Human Services
CFDA No.:	93.777 and 93.778
Program:	Medicaid Cluster
Requirement:	Eligibility
Type of Finding:	Non-Compliance and Material Weakness
Federal award no. and year:	05-1605HI5028 2016 05-1705HI5028 2017

Criteria: Title 42 CFR Part 435.911 requires the timely determination of eligibility of individuals who apply for Medicaid benefits within 1) ninety days for applicants who apply for Medicaid on the basis of disability, and 2) forty five days for all other applicants. In addition, Title 42 CFR Part 435.916 requires annual re-verifications of participant eligibility.

Condition: Eligibility determination for both MAGI and MAGI-excepted applications were not processed in accordance to the time standards.

***Context*:** During our audit, we noted that there were approximately 56,000 applications received during fiscal year 2017. At the end of each month, there was an average of approximately 1,900 Modified Adjusted Gross Income (MAGI) applications and approximately 200 MAGI-excepted applications for which eligibility was not determined in a timely manner. Additionally, there were approximately 341,000 renewals processed during fiscal year 2017. At the end of each month, there was an average of approximately 4,800 cases whose annual re-verification was not completed within 12 months.

Cause: Although the Department has policies and procedures in place to ensure eligibility is determined on a timely basis, there were insufficient staff resources to investigate pending cases.

Effect: There was an average of approximately 1,900 Modified Adjusted Gross Income (MAGI) applications and 200 MAGI-excepted applications for which eligibility was not determined in a timely manner. Also there were approximately 4,800 cases whose annual re-verification was not completed within 12 months.

Questioned costs: None

Section III – Federal Award Findings and Questioned Costs (continued)

Finding No.: 2017-002 Complete Eligibility Applications and Annual Eligibility Re-Verifications in a Timely Manner (continued)

Identification of a repeat finding: This is a repeat finding from the immediate previous audit, 2016-02.

Recommendations: We recommend the Department continue to assess the staffing requirements at the Eligibility Branch as well as reviewing its procedures over prioritizing applicants/participants to ensure that the backlog of applications pending eligibility determinations perform timely annual re-verifications is eliminated. We also recommend adding the renewal determination timeliness capability to the KOLEA system to enable monitoring over the process.

Views of responsible officials: The Department agrees with the finding and will implement corrective action. Please refer to the corrective action plan on pages 119-136.

Section III – Federal Award Findings and Questioned Costs (continued)

Finding No.: 2017-003	**Maintaining Proper Case Documentation to Support Eligibility Determinations**
Federal Agency:	U.S. Department of Health and Human Services
CFDA No.:	93.777 and 93.778
Program:	Medicaid Cluster
Requirement:	Eligibility
Type of Finding:	Non-Compliance and Material Weakness
Federal award no.	05-1605HI5028 2016
and year:	05-1705HI5028 2017

Criteria: Per 42 CFR 431.17(b), "A State plan must provide that the Medicaid agency will maintain or supervise the maintenance of the records necessary for the proper and efficient operation of the plan. The records must include individual records on each applicant and recipient that contain information on facts essential to determination of initial and continuing eligibility." For aged, blind, or disable (MAGI-excepted) individuals, verification of assets is required per 42 CFR 435.840.

Condition: Asset verification for 8 participants were not properly supported by the Department's records and Supplemental Form for Individuals Applying for Coverage on the basis of Age, Blind, or Disability and/or Requests for Long-Term Care Services (DHS 1100B) and/or Disability Report form (DHS 1127/1128) were not properly maintained for 2 participants.

Context: During our audit, we selected a non-statistical sample of 61 MAGI-excepted participants out of approximately 61,000 for testing. We noted that 8 applications did not have support for verification of assets and 2 applications did not have the DHS 1100B and/or DHS 1127/1128.

Cause: Although the Department has policies and procedures in place to ensure the proper eligibility documents are maintained, there was a lack of diligence in complying with the policies and procedures.

Effect: 10 participants received benefits in excess of the amounts supported by the Department's documentation.

Questioned Costs: $6,598

Identification of a repeat finding: This is a repeat finding from the immediate previous audit, 2016-14.

Section III – Federal Award Findings and Questioned Costs (continued)

Finding No.: 2017-003 Maintaining Proper Case Documentation to Support Eligibility Determinations (continued)

Recommendations: We recommend the Department be more diligent in following its existing policies and procedures to ensure compliance with the Federal requirements.

Views of responsible officials: The Department agrees with the finding and will implement corrective action. Please refer to the corrective action plan on pages 119-136.

Section III – Federal Award Findings and Questioned Costs (continued)

Finding No.: 2017-004 Complete Eligibility Determinations in a Timely Manner

Federal Agency:	U.S Department of Education	
CFDA No.:	84.126	
Program:	Vocational Rehabilitation	
Requirement:	Eligibility	
Type of Finding:	Non-Compliance and Material Weakness	
Federal award no.	H126A150015	2015
and year:	H126A160015	2016
	H126A170015	2017

Criteria: In accordance with 29 USC 722(a)(6), the Department must determine whether an individual is eligible for Vocational Rehabilitation services within a reasonable period of time, not to exceed 60 days, after the individual has submitted an application for services, unless exceptional and unforeseen circumstances exist beyond the Department's control and the Department and the applicant agree to a specific extension of time.

Condition: Eligibility determinations for 13 participants were not completed in a timely manner.

Context: During our audit, we selected a non-statistical sample of 60 participant files, out of a population of 1,415, for testing and noted the following:

- 9 participant files where eligibility determinations were completed outside of the 60 day window, without a signed extension letter.
- 4 participant files where eligibility determinations were not completed within the 60 day window, and whose cases were ultimately closed.

Cause: Although the Department has policies and procedures in place to ensure that eligibility determinations are completed in a timely manner, there was a lack of diligence in complying with the policies and procedures.

Effect: 13 participants' eligibility was determined outside of the required timeframe.

Questioned Costs: None

Identification of a repeat finding: This is a repeat finding from the immediate previous audit, 2016-04.

Section III – Federal Award Findings and Questioned Costs (continued)

Finding No.: 2017-004 Complete Eligibility Determinations in a Timely Manner (continued)

Recommendations: We recommend the Department be more diligent in following its existing policies and procedures to ensure compliance with the Federal requirements.

Views of responsible officials: The Department agrees with the finding and will implement corrective action. Please refer to the corrective action plan on pages 119-136.

Section III – Federal Award Findings and Questioned Costs (continued)

Finding No.: 2017-005 **Complete Individualized Plan for Employment in a Timely Manner**

Federal Agency:	U.S Department of Education	
CFDA No.:	84.126	
Program:	Vocational Rehabilitation	
Requirement:	Special Tests and Provisions – Completion of IPEs	
Type of Finding:	Non-Compliance and Material Weakness	
Federal award no.	H126A150015	2015
and year:	H126A160015	2016
	H126A170015	2017

Criteria: 29 USC 722(b)(3)(F) states that the individualized plan for employment (IPE) shall be developed as soon as possible, but not later than a deadline of 90 days after the date of the determination of eligibility, unless the designated State unit and the eligible individual agree to an extension of that deadline to a specific date by which the individualized plan for employment shall be completed. Section (2)(C) requires that an individualized plan for employment shall be (i) agreed to, and signed by, such eligible individual or, as appropriate, the individual's representative; and (ii) approved and signed by a qualified vocational rehabilitation counselor employed by the designated State unit.

Condition: For 7 participants, IPE's were not completed within the required timeframe or were not properly approved.

Context: During our audit, we selected a non-statistical sample of 60 participant files, out of a population of 1,440, for testing and noted the following:

- 4 participants whose IPE was completed outside of the required 90 day period without the required extension.
- 1 participant who were determined to be eligible but did not have a completed IPE, or a case closure that was not performed within the required 90 day period, and no extension was obtained.
- 2 participant files where the IPE was not signed by the counselor, client or both parties resulting in a benefit overpayment of $1,201.

Cause: Although the Department has policies and procedures in place to ensure that IPEs are completed in a timely manner, there was a lack of diligence in complying with the policies and procedures.

Section III – Federal Award Findings and Questioned Costs (continued)

Finding No.: 2017-005 Complete Individualized Plan for Employment in a Timely Manner (continued)

Effect: Failure to complete the IPE's in a timely manner and have them properly approved resulted in non-compliance with requirement.

Questioned Costs: $1,201

Identification of a repeat finding: This is a repeat finding from the immediate previous audit, 2016-05.

Recommendations: We recommend the Department be more diligent in following its existing policies and procedures to ensure compliance with the Federal requirements.

Views of responsible officials: The Department agrees with the finding and will implement corrective action. Please refer to the corrective action plan on pages 119-136.

Section III – Federal Award Findings and Questioned Costs (continued)

Finding No.: 2017-006 **Maintaining Proper Case Documentation to Support Eligibility Determinations**

Federal Agency:	U.S Department of Education	
CFDA No.:	84.126	
Program:	Vocational Rehabilitation	
Requirement:	Eligibility	
Type of Finding:	Non-Compliance and Material Weakness	
Federal award no.	H126A150015	2015
and year:	H126A160015	2016
	H126A170015	2017

Criteria: Individuals determined to be disabled as defined at Section 7(20)(A) of 29 USC 705(20)(A) are considered eligible for services. Additionally, an individual who is a beneficiary of Social Security Disability Insurance (SSDI) or a recipient of Supplemental Security Income (SSI) is presumed to be eligible for services.

Condition: 7 participant files were missing documents supporting their eligibility determinations.

Context: During our audit, we selected a non-statistical sample of 60 participant files, out of a population of 1,415 for testing and noted 7 participant files that were missing documents supporting the participants' qualifying criteria, resulting in the potential overpayment of benefits of $4,973.

Cause: Although the Department has policies and procedures in place to ensure that the proper eligibility documents are maintained, there was a lack of diligence in complying with the policies and procedures.

Effect: 7 participants were determined to be eligible that were not supported by the Department's documentation.

Questioned Costs: $4,973

Identification of a repeat finding: This is a repeat finding from the immediate previous audit, 2016-03.

Recommendations: We recommend the Department be more diligent in following its existing policies and procedures to ensure compliance with the Federal requirements.

Section III – Federal Award Findings and Questioned Costs (continued)

Finding No.: 2017-006 Maintaining Proper Case Documentation to Support Eligibility Determinations

Views of responsible officials: The Department agrees with the finding and will implement corrective action. Please refer to the corrective action plan on pages 119-136.

Section III – Federal Award Findings and Questioned Costs (continued)

Finding No.: 2017-007 **Improve the Accuracy of Child Care Reimbursements**

Federal Agency:	U.S. Department of Health and Human Services	
CFDA No.:	93.575 and 93.596	
Program:	Child Care and Development Fund (CCDF) Cluster	
Requirement:	Eligibility	
Type of Finding:	Non-Compliance and Material Weakness	
Federal award no. and year:	G1501HICCDF	2015
	G1601HICCDF	2016
	G1701HICCDF	2017

Criteria: Title 45 CFR Section 98.67 requires that the Department expend and account for Child Care and Development funds in accordance with their own laws and procedures for expending and accounting for their own funds. According to Chapter 17-798.2 of the Hawaii Administrative Rules (HAR), child care payments will include the monthly cost of child care per child, which will be made in accordance with the established fee scale and rate table as stipulated in the HAR.

Condition: Eligibility determinations and the related benefits for 10 participants were not properly supported by the Department's records.

Context: During our audit, we selected a non-statistical sample of 60 eligibility determinations, out of a population of approximately 9,415 participants, for testing and noted exceptions in 10 participant case files as follows:

- For 5 case files, the Parent's Calendar of Activities (DHS 928)/ Child Care Certificate and Provider Confirmation (DHS 918) did not agree with the Child Care Worksheet (DHS 920). Of the 5 case files, discrepancies in 3 of the case files did not have any impact on the benefits paid to the participant. For the remaining 2 case files, the discrepancies resulted in the potential overpayment and the potential underpayment of benefits of $138 and ($30), respectively.
- For 4 case files, the support for the applicant's income (paystubs, HANA benefit, child care verification letter, etc.) did not agree with the Child Care Worksheet. Of the 4 case files, discrepancies of the 2 case files did not have any impact on the benefit paid to the participant. For the remaining 2 case files, the discrepancies resulted in the potential overpayment of benefits of $60.

Section III – Federal Award Findings and Questioned Costs (continued)

Finding No.: 2017-007 Improve the Accuracy of Child Care Reimbursements (continued)

- For 4 case files, the proper documentation with regards to updates or changes to child care costs, hours of child care, or other changes was not obtained or updated properly. These errors did not resulted in the potential over/under-payment of benefit.

Cause: Although the Department has policies and procedures in place to ensure the proper eligibility documents are maintained, there was a lack of diligence in complying with the policies and procedures.

Effect: 4 participants potentially received benefits that were either in excess or deficient of the amounts supported by the Department's documentation.

Questioned Costs: $198

Identification of a repeat finding: This is a repeat finding from the immediate previous audit, 2016-06.

Recommendations: We recommend the Department be more diligent in following its existing policies and procedures to ensure compliance with the Federal requirements.

Views of responsible officials: The Department agrees with the finding and will implement corrective action. Please refer to the corrective action plan on pages 119-136.

Section III – Federal Award Findings and Questioned Costs (continued)

Finding No.: 2017-008 **Proper Determination of Benefit Amount**

Federal Agency:	U.S. Department of Health and Human Services	
CFDA No.:	93.659	
Program:	Adoption Assistance	
Requirement:	Activities Allowed & Allowable Costs	
Type of Finding:	Non-Compliance and Material Weakness	
Federal award no.	1601HI1407	2016
and year:	1701HI1407	2017

Criteria: 42 USC 673(a)(3) states that the amount of the payments to be made in any case under clauses (i) and (ii) of paragraph (1)(B) shall be determined through agreement between the adoptive parents and the State or local agency administering the program under this section, which shall take into consideration the circumstances of the adopting parents and the needs of the child being adopted, and may be readjusted periodically, with the concurrence of the adopting parents (which may be specified in the adoption assistance agreement), depending upon changes in such circumstances.

Program participant benefit payments are governed by a signed "Adoption Assistance Agreement" (Agreement). This Agreement outlines the terms and conditions for the participants and the Department, and includes the total amount of benefit payments. Benefit payments under the Agreement may be further supplemented due to difficulties in caring for a child as determined by a caseworker on an as needed basis and documented on the "Difficulty of Care" (DOC) worksheet. In the event of an increase or decrease to the amount of the DOC subsidy, the caseworkers are required to execute a revised Agreement.

Condition: Amounts paid to 4 participants were not properly supported by the Department's records.

Context: During our audit, we selected a non-statistical sample of 60 participant files, out of a population of approximately 2,800, for testing and noted the following:

- 1 instance where the DOC worksheet was missing, resulting in the potential overpayment of benefits of $313.
- 1 instance where the DOC worksheet was not signed by a caseworker or supervisor resulting in the potential overpayment of benefits of $313.
- 2 instances where the DOC worksheet did not support the benefit amount paid resulting in the potential underpayment of benefits of $269.

Section III – Federal Award Findings and Questioned Costs (continued)

Finding No.: 2017-008 Proper Determination of Benefit Amount (continued)

Cause: Although the Department has policies and procedures in place to ensure the proper support for the monthly adoption assistance payment is maintained, calculated, and authorized, there was a lack of diligence in complying with the policies and procedures.

Effect: 2 participants potentially received benefits in excess and 2 participants potentially received benefits less than the amounts supported by the Department's documentation.

Questioned Costs: $626

Identification of a repeat finding: This is a repeat finding from the immediate previous audit, 2016-07.

Recommendations: We recommend the Department be more diligent in following its existing policies and procedures to ensure compliance with the Federal requirements.

Views of responsible officials: The Department agrees with the finding and will implement corrective action. Please refer to the corrective action plan on pages 119-136.

Section III – Federal Award Findings and Questioned Costs (continued)

Finding No.: 2017-009	**Maintaining Proper Case Documentation to Support Eligibility Determination**
Federal Agency:	U.S. Department of the Interior
CFDA No.:	15.875
Program:	Economic, Social, and Political Development of the Territories
Requirement:	Eligibility
Type of Finding:	Non-Compliance and Material Weakness
Federal award no. and year:	Hawaii-CI-2017-1 2017

Criteria: In accordance with 42 CFR 435.907, the DHS must accept an application from the applicant, and any documentation required to establish eligibility.

Per 42 CFR 435.407(i)(2), States must maintain copies of citizenship and identification documents in the case record or electronic data base and make these copies available for compliance audits.

Condition: 6 participant case files were missing documents supporting their eligibility determinations.

Context: During our audit, we selected a non-statistical sample of 60 participant files, out of a population of approximately 1,800 participants, for testing and noted exceptions in 6 participant case files as follows:

- For 5 case files, the support for immigration status was missing, resulting in a potential benefit overpayment of $8,458.
- For 1 case file, the applicant's application was missing, resulting in a potential benefit overpayment of $1,698.

Cause: Although the Department has policies and procedures in place to ensure the proper support for eligibility determinations are maintained, there was a lack of diligence in complying with the policies and procedures.

Effect: 6 participants that were determined to be eligible did not have the proper support for eligibility determination.

Questioned Costs: $10,156

Section III – Federal Award Findings and Questioned Costs (continued)

Finding No.: 2017-009 Maintaining Proper Case Documentation to Support Eligibility Determination (continued)

Identification of a repeat finding: Not applicable

Recommendations: We recommend the Department be more diligent in following its existing policies and procedures to ensure compliance with the Federal requirements.

Views of responsible officials: The Department agrees with the finding and will implement corrective action. Please refer to the corrective action plan on pages 119-136.

Section III – Federal Award Findings and Questioned Costs (continued)

Finding No.: 2017-010 Tracking Earmarked Funds

Federal Agency:	U.S Department of Health and Human Services
CFDA No.:	93.667
Program:	Social Services Block Grant
Requirement:	Earmarking
Type of Finding:	Non-Compliance and Material Weakness
Federal award no. and year:	G1501HISOSR 2015 G1601HISOSR 2016 G1701HISOSR 2017

Criteria: 42 USC 604(d)(3)(A) and 9902(2) requires an entity to use all of the amount transferred in from the Temporary Assistance for Needy Families (TANF) (CDFA 93.558) program to provides services to children or their families whose income is less than 200 percent of the official poverty guideline as revised annually by U.S. Department of Health and Human Services.

The Social Services Block Grant (SSBG) program receives transfers of funds from the TANF program to provide benefits to participants subject to the aforementioned income requirement. The SSBG program allocates portions of the TANF fund to its subrecipients through contracts during the budgeting process. During the year, the participants are required to self-report their income information to the subrecipients. The subrecipients compile the information pertaining to the number of TANF and non-TANF clients they serve, and for each contract, submit this information to the Department on a monthly basis, known as the "Client Eligibility List" (CEL). Quarterly, the SSBG program reviews the subrecipient's client base to ensure that the contract funding is in compliance with the earmarking requirement. In the event of noncompliance, the SSBG program will re-allocate the TANF funds between subrecipient contracts to remain in compliance with the earmarking requirement.

Condition: Earmarking requirements for 3 TANF funded contracts were not met, and the information used in 9 TANF funded contracts, such as client counts and financial information were missing.

Context: During our audit, we selected a non-statistical sample of 15 contracts, out of a population of 34, for testing and noted the following:

- 3 contracts that did not meet the earmarking requirements which resulted in the over-allocation of $126,115 of TANF funds to these contracts.

Section III – Federal Award Findings and Questioned Costs (continued)

Finding No.: 2017-010 Tracking Earmarked Funds (continued)

- 9 contracts where management determined the earmarking requirements were met, did not have the CEL and financial information supporting the determination.

Cause: The Department has established policies and procedures to monitor compliance with the earmarking requirement; however, program management has experienced difficulties with certain contracted entities in gathering the information necessary to demonstrate compliance with the requirements.

Effect: The Department was unable to demonstrate compliance with the earmarking requirements.

Questioned Costs: $126,115

Identification of a repeat finding: This is a repeat finding from the immediate previous audit, 2016-10.

Recommendations: We recommend that the Department provide adequate and continuous training to its contracted entities, in addition to sufficient monitoring to demonstrate compliance with the requirements.

Views of responsible officials: The Department agrees with the finding and will implement corrective action. Please refer to the corrective action plan on pages 119-136.

Section III – Federal Award Findings and Questioned Costs (continued)

Finding No.: 2017-011 Subrecipient Monitoring

Federal Agency:	U.S Department of Health and Human Services
CFDA No.:	93.667
Program:	Social Services Block Grant
Requirement:	Subrecipient Monitoring
Type of Finding:	Non-Compliance and Material Weakness
Federal award no. and year:	G1501HISOSR 2015 G1601HISOSR 2016 G1701HISOSR 2017

Criteria: CFR 200.331(d) states that the pass-through entity (PTE) is required to monitor the activities of the subrecipient as necessary to ensure that the subaward was used for authorized purposes and was in compliance with Federal statutes. CFR 200.331(d)(2) further states that the PTE must follow up and ensure that the subrecipient took timely and appropriate action on all deficiencies pertaining to the Federal award provided to the subrecipient.

Condition: 3 subrecipients were not properly monitored.

Context: During our audit, we selected a non-statistical sample of 7 subrecipient contract files out of a population of 27, for testing and noted the following:

- 2 contract files which lacked adequate documentation to ascertain whether or not the PTE properly monitored the activities of the subrecipient.
- 1 contract file where a significant deficiency was identified by the subrecpient's auditor, however the PTE did not follow up with the subrecipient in a timely manner to ensure that appropriate action had been taken on all deficiencies.

Cause: The Department has established policies and procedures to comply with the subrecipient monitoring requirements, however there was a lack of diligence in complying with the policies and procedures.

Effect: Failure to follow the policies and procedures resulted in inadequate monitoring of subrecipients.

Questioned Costs: None

Section III – Federal Award Findings and Questioned Costs (continued)

Finding No.: 2017-011 Subrecipient Monitoring (continued)

Identification of a repeat finding: Not applicable

Recommendations: We recommend that the Department be more diligent in following its existing policies and procedures to ensure compliance with the Federal requirements.

Views of responsible officials: The Department agrees with the finding and will implement corrective action. Please refer to the corrective action plan on pages 119-136.

Section III – Federal Award Findings and Questioned Costs (continued)

Finding No.: 2017-012 **Maintaining Proper Case Documentation to Support Compliance with Child Support Non-Cooperation Requirement**

Federal Agency:	U.S Department of Health and Human Services			
CFDA No.:	93.558			
Program:	TANF Cluster			
Requirement:	Special Tests and Provisions - Child Support Non-Cooperation			
Type of Finding:	Non-Compliance and Material Weakness			
Federal award no.	G1502HITAN3 2015		G1502HITANF	2015
and year:	G1602HITAN3 2016		G1602HITANF	2016
	G1702HITAN3 2017		G1702HITANF	2017

Criteria: 45 CFR section 264.30 states the Title IV-A agency must take appropriate action, as defined, if the Title IV-D agency determines that an individual is not cooperating with the child support enforcement requirements.

Condition: 19 participant files were missing the proper case documentation to support compliance with the requirements.

Context: During our audit, we selected a non-statistical sample of 60 participant files, out of a population of 270 cases, for testing and noted the following:

- 17 participants who were missing documentation in their case file to indicate whether the Department took appropriate action regarding their non-cooperation, resulting in a potential overpayment of benefits of $33,300.
- 2 participants who were improperly coded in the system as exempt from the requirements. This error in coding did not result in any errors in benefit payments.

Cause: Although the Department has established policies and procedures in place which require the program to maintain the required documents or to ensure that appropriate benefit reduction actions are taken, there was a lack of diligence in either filing or obtaining the required documents and stopping benefit payments.

Effect: Failure to properly maintain the required documentation on file resulted in non-compliance with the requirements and questioned costs.

Section III – Federal Award Findings and Questioned Costs (continued)

Finding No.: 2017-012 Maintaining Proper Case Documentation to Support Compliance with Child Support Non-Cooperation Requirement (continued)

Questioned Costs: $33,300

Identification of a repeat finding: This is a repeat finding from the immediate previous audit, 2016-12.

Recommendations: We recommend that the Department diligently perform the required procedures and maintain the appropriate documents to comply with its policies and procedures.

Views of responsible officials: The Department agrees with the finding and will implement corrective action. Please refer to the corrective action plan on pages 119-136.

Section III – Federal Award Findings and Questioned Costs (continued)

Finding No.: 2017-013 **Quarterly Reporting**

Federal Agency:	U.S Department of Health and Human Services			
CFDA No.:	93.558			
Program:	TANF Cluster			
Requirement:	Reporting			
Type of Finding:	Non-Compliance and Material Weakness			
Federal award no.	G1502HITAN3	2015	G1502HITANF	2015
and year:	G1602HITAN3	2016	G1602HITANF	2016
	G1702HITAN3	2017	G1702HITANF	2017

Criteria: 45 CFR 265.3 requires each State to collect on a monthly basis, and file on a quarterly basis, the data specified in the Temporary Assistance for Needy Families (TANF) Data Report.

Condition: 4 quarterly data reports, specifically 15 case files which support the quarterly data reports were incorrectly reported.

Context: During our audit, we selected all 4 quarterly data reports for testing. Each quarterly data report aggregates the information from approximately 8,000 case files. We selected a non-statistical sample of 60 case files for testing and noted the following:

- 4 quarterly reports where the key report line item “Is the TANF family exempt from the Federal time limit provisions” was incorrectly reported for 5 case files.
- 4 quarterly reports where the key report line item “Work Participation Status” was incorrectly reported for 8 case files.
- 2 quarterly reports where the key report line item “Parents with Minor Child” was incorrectly reported for 2 case files.

Cause: The Department indicated that the errors were due to programming errors in the system which generates the TANF Data Reports.

Effect: Failure to properly report the correct data resulted in non-compliance with the requirement. Further, 45 CFR 265.8 allows for a potential penalty to be imposed when the Department fails to comply with the requirement.

Questioned Costs: None

Section III – Federal Award Findings and Questioned Costs (continued)

Finding No.: 2017-013 Quarterly Reporting (continued)

Identification of a repeat finding: This is a repeat finding from the immediate previous audit, 2016-11.

Recommendations: We recommend the Department correct the programming errors in the system to ensure that the information reported is complete and accurate.

Views of responsible officials: The Department agrees with the finding and will implement corrective action. Please refer to the corrective action plan on pages 119-136.

Section III – Federal Award Findings and Questioned Costs (continued)

Finding No.: 2017-014	**Maintaining Proper Case Documentation to Support Eligibility Determinations**			
Federal Agency:	U.S Department of Health and Human Services			
CFDA No.:	93.558			
Program:	TANF Cluster			
Requirement:	Eligibility			
Type of Finding:	Non-Compliance and Material Weakness			
Federal award no.	G1502HITAN3	2015	G1502HITANF	2015
and year:	G1602HITAN3	2016	G1602HITANF	2016
	G1702HITAN3	2017	G1702HITANF	2017

Criteria: The State of Hawaii Temporary Assistance for Needy Families State Plan (State Plan) provides the rules and regulations for the eligibility requirements of the TANF program subject to the requirements of 45 CFR 206.10. To apply for assistance, applicants must complete and file an application form, be interviewed by a caseworker, and have certain information verified. Further, to be eligible, the applicant must meet specific financial requirements.

Condition: Eligibility determinations for 10 participants were not properly supported by the Department's records or were not completed in accordance with the State Plan.

Context: During our audit, we selected a non-statistical sample of 60 participant files out of a population of 7,751 cases for testing and noted exceptions in 10 case files as follows:

- 4 case files which did not contain the signed application form or birth certificates, resulting in possible benefit overpayments of $1,743.
- 1 case file where benefits continued to be paid after exceeding the TANF 60 month time limit, resulting in a benefit overpayment of $763.
- 1 case file where the eligibility determination was completed outside of the required 45 day period.
- 2 case files where the standard of assistance used in the benefit calculation was not properly adjusted, resulting in possible benefit overpayments of $257.
- 2 case files where the benefit calculation was performed without using the current income information, resulting in possible benefit overpayments of $884.

Section III – Federal Award Findings and Questioned Costs (continued)

Finding No.: 2017-014 Maintaining Proper Case Documentation to Support Eligibility Determinations (continued)

Cause: Although the Department has established policies and procedures in place over the application process and the benefit calculation, there was a lack of diligence in complying with the policies and procedures.

Effect: Failure to follow the established policies and procedures limits the Department's ability to demonstrate compliance with the requirements, and resulted in questioned costs.

Questioned Costs: $3,647

Identification of a repeat finding: This is a repeat finding from the immediate previous audit, 2016-15.

Recommendations: We recommend that the Department diligently comply with its policies and procedures.

Views of responsible officials: The Department agrees with the finding and will implement corrective action. Please refer to the corrective action plan on pages 119-136.

Section III – Federal Award Findings and Questioned Costs (continued)

Finding No.: 2017-015	**Benefit Payments in Accordance with Individualized Plan for Employment (IPE)**
Federal Agency:	U.S Department of Education
CFDA No.:	84.126
Program:	Vocational Rehabilitation
Requirement:	Activities Allowed and Allowable Costs
Type of Finding:	Known Questioned Costs when Likely Questioned Costs are Greater Than $25,000
Federal award no. and year:	H126A150015 2015 H126A160015 2016 H126A170015 2017

Criteria: In accordance with 29 USC Section 723(a), vocational rehabilitation services provided under this subchapter are any services described in an individualized plan for employment developed for the individual. All services listed in the participant's individualized plan for employment are considered to be allowable activities. Section (b)(2)C) states that an individualized plan for employment shall be (i) agreed to , and signed by, such eligible individual or, as appropriate, the individual's representative; and (ii) approved and signed by a qualified vocational rehabilitation counselor employed by the designated State unit.

The individualized plan for employment is developed with the input from the counselor and the participant, and entered into the Akamai system. Upon agreement of the IPE, the counselor will print and both the counselor and the participant will sign in agreement. Revisions to the individualized plan for employment are done on an as needed basis, and are also agreed to and signed by the counselor and the participant.

Condition: For 3 participants, IPE's were not properly approved.

Context: During our audit, we selected a non-statistical sample of 60 expenditures for testing which approximated $42,500 out of a population of approximately $17.5 million. 56 out of the 60 expenditures tested were benefit payments which approximated $32,000. IPEs for 3 out of the 56 benefit payments were not signed, which resulted in potential benefit overpayments of $415. The expenditure related to client benefits approximated $16.3 million.

Section III – Federal Award Findings and Questioned Costs (continued)

Finding No.: 2017-015 Benefit Payments in Accordance with Individualized Plan for Employment (continued)

Cause: Although the Department has policies and procedures in place to ensure that IPEs are properly approved, there was a lack of diligence in complying with the policies and procedures.

Effect: Failure to have the IPEs properly approved resulted in benefit overpayments for 3 participants.

Questioned Costs: $415

Identification of a repeat finding: Not applicable.

Recommendations: We recommend the Department be more diligent in following its existing policies and procedures to ensure compliance with the Federal requirements.

Views of responsible officials: The Department agrees with the finding and will implement corrective action. Please refer to the corrective action plan on pages 119-136.

Section III – Federal Award Findings and Questioned Costs (continued)

Finding No.: 2017-016 **Improve Controls over Utilization, Fraud and Accuracy of Medicaid Claims**

Federal Agency:	U.S Department of Health and Human Services
CFDA No.:	93.777 and 93.778
Program:	Medicaid Cluster
Requirement:	Special Tests and Provisions – Utilization Control and Program Integrity
Type of Finding:	Significant Deficiency
Federal award no.	05-1605HI5028 2016
and year:	05-1705HI5028 2017

Criteria: Title 42 CFR Part 456 Subpart A requires statewide program of control of the utilization of all Medicaid services. In addition, Title 42 CFR 456.23 requires a post payment review process that allows State personnel to review recipient utilization and provider service profiles and exception criteria to identify and correct misutilization practices of recipients and providers.

Condition: Although the Department filled a part-time Pharmacist position, there were no formal policies and procedures put into place regarding the Department's compliance with post-payment reviews and monitoring of Conduent (formerly Xerox), its pharmacy benefits manager (PBM) during the 2017 fiscal year.

Context: The development and administration of the State's Medicaid Assistance Program (MAP) is the responsibility of the Med Quest Division (MQD). The DHS information retrieval and non drug claims processing system is the Hawaii Prepaid Medical Management Information System (HPMMIS) which is operated and maintained by the Arizona Health Care Cost Containment System (AHCCCS). In addition, the management and processing of DHS's pharmacy benefits is contracted to Conduent.

Due to the complexity of the Medicaid program operations and the large volume of transactions, much reliance is placed on HPMMIS and its system of internal controls to accurately maintain enrollment and participant data and to ensure Medicaid costs are allowable, properly coded and accurately paid.

We noted during the 2017 fiscal year, the Department did not develop formal policies and procedures on the post-payment review and monitoring of Conduent, its pharmacy benefits manager (PBM). The previous report issued by an independent healthcare auditing and consulting company recommended the need to explore additional edits, analysis, and reporting in order to expand anti-fraud efforts. Although the Department has filled a part-time pharmacist position to fulfill this function, there were no formal

Section III – Federal Award Findings and Questioned Costs (continued)

Finding No.: 2017-016 Improve Controls over Utilization, Fraud and Accuracy of Medicaid Claims (continued)

policies and procedures in place.

Cause: The Department did not have policies and procedures in place on the post-payment review and monitoring of Conduent, its pharmacy benefits manager (PBM) during the 2017 fiscal year.

Questioned costs: None

Identification of a repeat finding: This is a repeat finding from the immediate previous audit, 2016-18.

Recommendations: The Department should improve its post-payment review process by developing formal policies and procedures to conduct regular post payment reviews on a sample of drug and non-drug claims to detect processing errors and identify ways to improve the claims processing system and procedures. The Payment Error Rate Measurement conducted by Centers for Medicare and Medicaid Services is an example of a post payment review.

Views of responsible officials: The Department agrees with the finding and will implement corrective action. Please refer to the corrective action plan on pages 119-136.

Section III – Federal Award Findings and Questioned Costs (continued)

Finding No.: 2017-017 Monitor the Medicaid Drug Rebate Program

Federal Agency:	U.S Department of Health and Human Services	
CFDA No.:	93.777 and 93.778	
Program:	Medicaid Cluster	
Requirement:	Allowable Costs	
Type of Finding:	Significant Deficiency	
Federal award no.	05-1605HI5028	2016
and year:	05-1705HI5028	2017

Criteria: The Medicaid Drug Rebate Program, as set forth in Section 1927 of the Social Security Act requires the Department to maintain drug utilization data that identifies the number of units of each covered outpatient drug for which the Department reimbursed providers. The number of units is applied to the unit rebate amount to determine the actual rebate amount due from each manufacturer.

Condition: Although the Department filled a part-time Pharmacist position, there were no formal policies and procedures put into place to perform monitoring of subcontractor activities during the 2017 fiscal year.

Context: The Department subcontracts the daily operations of the drug rebate program to Conduent (formerly Xerox), including billing, collection, accounting, and dispute resolution. While the day to day operations of the drug rebate program have been subcontracted to Conduent, the Department is still ultimately accountable for the drug rebate program. We noted that the Department does have standard policies and procedures in place to monitor subcontractor activities.

Cause: Due to the complexity involved in the drug rebate calculations, the Department does not have the necessary resources and staffing requirements to perform monitoring procedures of subcontractor activities.

Effect: The lack of formal policies and procedures related to subcontractor monitoring activities may result in the risk that the drug rebates are not being calculated correctly and accurately reported.

Questioned costs: None

Identification of a repeat finding: This is a repeat finding from the immediate previous audit, 2016-19.

Section III – Federal Award Findings and Questioned Costs (continued)

Finding No.: 2017-017 Monitor the Medicaid Drug Rebate Program (continued)

Recommendations: The Department should establish formal procedures to monitor its subcontractor activities of the drug rebate program.

Views of responsible officials: The Department agrees with the finding and will implement corrective action. Please refer to the corrective action plan on pages 119-136.

Section III – Federal Award Findings and Questioned Costs (continued)

Finding No.: 2017-018	**Reporting**
Federal Agency:	U.S Department of Health and Human Services
CFDA No.:	93.667
Program:	Social Services Block Grant
Requirement:	Reporting
Type of Finding:	Significant Deficiency
Federal award no. and year:	G1501HISOSR 2015 G1601HISOSR 2016 G1701HISOSR 2017

Criteria: 42 USC 1397(e) requires each State to prepare reports on its activities carried out with funds made available through the Social Services Block Grant. 45 CFR 96.17 states that the State must submit each annual report (1) within six months of the end of the reporting period covered by the report; or (2) at the time the State submits its application for funding for the federal or state year, as appropriate, which begins subsequent to the expiration of that six-month period.

Condition: 1 report was not submitted in a timely manner.

Context: During our audit, we selected the 2 reports which were required to be submitted during the year noting 1 of the required reports was not submitted in a timely manner.

Cause: The Department has established policies and procedures to comply with the reporting requirements, however there was a lack of diligence in complying with the policies and procedures.

Effect: Failure to follow the policies and procedures resulted in the late submission of the report.

Questioned Costs: None

Identification of a repeat finding: This is a repeat finding from the immediate previous audit, 2016-20

Recommendations: We recommend that the Department be more diligent in following its existing policies and procedures to ensure compliance with the Federal requirements.

Views of responsible officials: The Department agrees with the finding and will implement corrective action. Please refer to the corrective action plan on pages 119-136.

PART V

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Department of Human Services
State of Hawaii

Summary Schedule of Prior Audit Findings
June 30, 2017

STATUS REPORT

This section contains the current status of our prior audit recommendations. The recommendations are referenced to the pages of the previous audit report for the fiscal year ended June 30, 2016, dated March 21, 2017.

Recommendations	Status

Part II – Financial Statement Findings

2016-01 Financial Statement Reporting

Recommendation: We recommend the Med-Quest Division revisit their staffing needs and the assignment of financial reporting responsibilities.

Corrective Action Taken or Planned: The Division has filled all accountant positions as of January 2017 and work has been re-assigned as individuals have gained knowledge of the program.

This finding is no longer applicable.

Part III – Federal Award Findings and Questioned Costs Section

2016-02 Complete Eligibility Applications and Annual Eligibility Re-Verifications in a Timely Manner

CFDA No.: 93.778
Program: Medical Assistance Program

Recommendation: We recommend the Department continue to assess the staffing requirements at the Eligibility Branch as well as reviewing its procedures over prioritizing applicants/participants to ensure that the backlog of applications pending eligibility determinations and annual re-verifications is eliminated. We also recommend adding the renewal determination timeliness capability to the KOLEA system to enable monitoring over the process**.**

Corrective Action Taken or Planned: Training – On-going; and Business Process Redesign – July 1, 2018.

This finding is still applicable. See finding 2017-002.

Recommendations	Status

Part III – Federal Award Findings and Questioned Costs Section (continued)

2016-03 Maintaining Proper Case Documentation to Support Eligibility Determinations

CFDA No.: 84.126
Program: Vocational Rehabilitation

Recommendation: We recommend the Department be more diligent in following its existing policies and procedures to ensure compliance with the Federal requirements.

Corrective Action Taken or Planned: Issued Internal Communication Form; VR Supervisors will check all current cases monthly; and performed case review in April and October 2017.

This finding is still applicable. See finding 2017-006.

2016-04 Complete Eligibility Determinations in a Timely Manner

CFDA No.: 84.126
Program: Vocational Rehabilitation

Recommendations: We recommend the Department be more diligent in following its existing policies and procedures to ensure compliance with the Federal requirements.

Corrective Action Taken or Planned: Issued Internal Communication Form; and performed case review in April and October 2017.

This finding is still applicable. See finding 2017-004.

2016-05 Complete Individualized Plan for Employment in a Timely Manner

CFDA No.: 84.126
Program: Vocational Rehabilitation

Recommendations: We recommend the Department be more diligent in following its existing policies and procedures to ensure compliance with the Federal requirements.

Corrective Action Taken or Planned: Issue Internal Communication Form; and performed case review in April and October 2017.

This finding is still applicable. See finding 2017-005.

Recommendations	Status
Part III – Federal Award Findings and Questioned Costs Section (continued)	
2016-06 Improve the Accuracy of Child Care Reimbursements	**CFDA No.: 93.575 and 93.596** **Program: Child Care and Development Fund (CCDF) Cluster**
Recommendations: We recommend the Department be more diligent in following its existing policies and procedures to ensure compliance with the Federal requirements.	***Corrective Action Taken or Planned***: Training provided to Child Care Connection Hawaii contractor – June 2017; training provided to First-To-Work staff – November 2016, February 2017, and May 2017; and issued policy clarification. This finding is still applicable. See finding 2017-007.
2016-07 Proper Determination of Benefit Amount	**CFDA No.: 93.659** **Program: Adoption Assistance**
Recommendations: We recommend the Department be more diligent in following its existing policies and procedures to ensure compliance with the Federal requirements.	***Corrective Action Taken or Planned***: Performed case review on all payment only cases during May and June 2016; Adoption Assistance Payment training curriculum completed and training will begin soon; and Section Administrators continue to conduct reviews on three randomly selected Adoption Assistance Payment cases each month. This finding is still applicable. See finding 2017-008.

Recommendations	Status

Part III – Federal Award Findings and Questioned Costs Section (continued)

2016-08 Maintaining Proper Case Documentation to Support Eligibility Determinations	**CFDA No.: 93.659** **Program: Adoption Assistance**
Recommendations: We recommend the Department be more diligent in following its existing policies and procedures to ensure compliance with the Federal requirements.	***Corrective Action Taken or Planned***: Performed case review on all payment only cases during May and June 2016; Adoption Assistance Payment training curriculum completed and training will begin soon; and Section Administrators continue to conduct reviews on three randomly selected Adoption Assistance Payment cases each month. This finding is no longer applicable.
2016-09 Reporting	**CFDA No.: 15.875** **Program: Economic, Social, and Political Development of the Territories**
Recommendations: We recommend the Department be more diligent in following its existing policies and procedures to ensure compliance with the Federal requirements.	***Corrective Action Taken or Planned***: The Division reached out to the Department of the Interior (DOI) and it was confirmed the financial report is due semi-annually. The Division has taken steps to calendar the due dates. They have submitted the required reports thus far timely this year. This finding is no longer applicable.

Department of Human Services
State of Hawaii

Summary Schedule of Prior Audit Findings (continued)
June 30, 2017

Recommendations	Status

Part III – Federal Award Findings and Questioned Costs Section (continued)

2016-10 Tracking Earmarked Funds

CFDA No.: 93.667
Program: Social Services Block Grant

Recommendations: We recommend that the Department provide adequate and continuous training to its contracted entities, in addition to sufficient monitoring to demonstrate compliance with the requirements.

Corrective Action Taken or Planned:

1) TANF eligibility, procedures, and compliance training was updated and contracted providers are trained by Purchase of Services (POS) specialist in the first quarter of the fiscal year.
2) POS specialists and the Management Information and Compliance (MIC) monitor are reviewing and tracking the required expenditure reports, client eligibility list, and quarterly reports. The MIC monitor ensures that percentage of TANF eligible families meets funding requirements quarterly.
3) The Support Services Office Administrator reviews all the information quarterly and makes any necessary adjustments to the TANF funding.
4) Staff are diligently supervised to ensure that policies and procedures are being followed by responsible staff.

This finding is still applicable. See finding 2017-010.

Recommendations	Status

Part III – Federal Award Findings and Questioned Costs Section (continued)

2016-11 Quarterly Reporting

CFDA No.: 93.558
Program: Temporary Assistance for Needy Families

Recommendations: We recommend the Department develop policies and procedures over the reporting requirement. Specifically, the Department should consider including cut-off periods to ensure information reported is complete and accurate.

Corrective Action Taken or Planned: The TANF Data Extract Team, consisting of program specialists from the Financial Assistance Program (FAP) Office and the Employment and Training Program Office (ETPO), and IT programmers, will continue to review and address issues listed on the quarterly error reports received from HHS-ACF.

This finding is still applicable. See finding 2017-013.

2016-12 Maintaining Proper Case Documentation to Support Compliance with Child Support Non-Cooperation Requirement

CFDA No.: 93.558
Program: Temporary Assistance for Needy Families

Recommendations: We recommend that the Department diligently perform the required procedures and maintain the appropriate documents to comply with its policies and procedures.

Corrective Action Taken or Planned:
1) The Statewide Branch will continually monitor eligibility staff for compliance with the child support requirements.
2) The Financial Assistance Program (FAP) requested for a HAWI system modification to remove the automated deletion of the alert and to de-authorize benefit issuance if appropriate action is not taken by the deadline.

This finding is still applicable. See finding 2017-012.

Recommendations	Status

Part III – Federal Award Findings and Questioned Costs Section (continued)

2016-13 Improve the Monitoring of Required Work Participation Hours

CFDA No.: 93.558
Program: Temporary Assistance for Needy Families

Recommendations: The Department should diligently apply the policies and procedures in place to comply with the Work Verification Plan.

***Corrective Action Taken or Planned*:**

1) The Employment and Training Program Office (ETPO) continue to conduct on-site WVP audits at least once a year.
2) ETPO will work with the Department's Research Office to develop a monthly report that captures all TANF recipient parents who were determined to be work eligible individuals but have no active FTW case in the HANA system.

This finding is no longer applicable.

2016-14 Maintaining Proper Case Documentation to Support Eligibility Determinations

CFDA No.: 93.778
Program: Medical Assistance Program

Recommendations: We recommend the Department be more diligent in following its existing policies and procedures to ensure compliance with the Federal requirements.

***Corrective Action Taken or Planned*:** Training - On-going; and Asset Verification Vendor - December 2017.

This finding is still applicable. See finding 2017-003.

Recommendations	Status

Part III – Federal Award Findings and Questioned Costs Section (continued)

2016-15 Maintaining Proper Case Documentation to Support Eligibility Determinations

Recommendations: We recommend that the Department diligently comply with its policies and procedures.

CFDA No.: 93.558
Program: Temporary Assistance for Needy Families

Corrective Action Taken or Planned: We will continue to be diligent in reminding staff to continue to properly document cases and to check all available interfaces to ensure all sources of income are identified and properly budgeted. We will also work with our Staff Development Office to ensure new hires receive training in these areas and understand the importance of proper and thorough case documentation.

This finding is still applicable. See finding 2017-014.

2016-16 Eligibility Determination and Benefit Calculation

Recommendations: We recommend the Department be more diligent in following its existing policies and procedures to ensure compliance with the Federal requirements.

CFDA No.: 10.551 and 10.561
Program: Supplemental Nutrition and Assistance Program (SNAP) Cluster

Corrective Action Taken or Planned: The Section Administrator has reported that the Processing Center is being proactive and is utilizing the Quality Maintenance Workers (QMW) to review 15 cases per month to identity errors and taking corrective actions if necessary. When errors are cited by the QMW, discussions are conducted with the workers to reduce errors.

This finding is no longer applicable.

Recommendations	Status

Part III – Federal Award Findings and Questioned Costs Section (continued)

2016-17 Maintaining Proper Case Documentation to Support Eligibility Determinations

Recommendations: We recommend the Department be more diligent in following its existing policies and procedures to ensure compliance with the Federal requirements.

CFDA No.: 93.568
Program: Low Income Home Energy Assistance

Corrective Action Taken or Planned:

1) Categorical eligibility and income determination will be simplified to decrease the possibility of errors in calculation.
2) Training sessions to stress income determination in exercises. Contractors to reinforce and complete their own training of staff.
3) Requiring in 2017 that the final step will be to do a screen print, review it, and file it in the case.

This finding is no longer applicable.

2016-18 Improve Controls over Utilization, Fraud and Accuracy of Medicaid Claims

Recommendations: The Department should improve its post-payment review process by developing formal policies and procedures to conduct regular post payment reviews on a sample of drug and non-drug claims to detect processing errors and identify ways to improve the claims processing system and procedures. The Payment Error Rate Measurement conducted by Centers for Medicare and Medicaid Services is an example of a post payment review.

CFDA No.: 93.778
Program: Medical Assistance Program

Corrective Action Taken or Planned: The Division's Drug Utilization Review Board (DUR) has been meeting on a quarterly basis. The Clinical Standards Office will be working with the Finance Office to review the process utilized by the Centers for Medicare and Medicaid Services (CMS) for the Payment Error Rate Measurement (PERM).

This finding is still applicable. See finding 2017-016.

Recommendations — Status

Part III – Federal Award Findings and Questioned Costs Section (continued)

2016-19 Monitor the Medicaid Drug Rebate Program

CFDA No.: 93.778
Program: Medical Assistance Program

Recommendations: The Department should establish formal procedures to monitor its subcontractor activities of the drug rebate program.

Corrective Action Taken or Planned:

1) Establishment of a process to ensure timely quarterly submission of drug rebate files to CMS by the fiscal agent.
2) Identification of a rebate unit error by one health plan. Our fiscal agent is working with the health plan to correct its information for resubmission.
3) Continued work on detailing the entire drug rebate process into a process flow chart and narrative.

This finding is still applicable. See finding 2017-017.

2016-20 Reporting

CFDA No.: 93.667
Program: Social Service Block

Recommendations: We recommend that the Department be more diligent in following its existing policies and procedures to ensure compliance with the Federal requirements.

Corrective Action Taken or Planned:
The Management Information and Compliance (MIC) specialist will complete and submit the pre- and post-expenditure plan for the Social Services Block Grant on a timely basis. The Support Services Office Administrator (SSOA) will closely supervise the MIC to ensure she is completing this responsibility.

This finding is still applicable. See finding 2017-018.

PART VI

CORRECTIVE ACTION PLAN

DAVID Y. IGE
GOVERNOR

PANKAJ BHANOT
DIRECTOR

CATHY BETTS
DEPUTY DIRECTOR

STATE OF HAWAIʻI
DEPARTMENT OF HUMAN SERVICES
P. O. Box 339
Honolulu, Hawaiʻi 96809-0339

March 19, 2018

Mr. Wilcox Choy, Partner
KMH LLP
1003 Bishop Street
Suite 2400
Honolulu, Hawaiʻi 96813

Dear Mr. Choy:

In accordance with 2 CFR 200.511(c), we have enclosed the Department of Human Services' views of responsible officials and corrective action plans related to the State Fiscal Year (SFY) 2017 audit report findings and recommendations.

If you have any questions regarding these corrective action plans or need assistance in other areas of the SFY 2017 audit, please contact Mrs. Vickie Edu at (808) 586-4878.

Sincerely,

Pankaj Bhanot
Director

Enclosure

State of Hawai'i
Department of Human Services
Corrective Action Plans for Findings and Recommendations
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Page(s), Finding	**Views of Responding Officials, Corrective Action Plans, Status, Responding Official**
p72-73, 2017-001	***Views of responsible officials:*** The Department does not dispute the finding and will implement corrective action. ***Corrective Action Taken or Planned:*** Procedures will be implemented and updated as needed to ensure management review of relevant financial information related to the capitalization of intangible assets. ***End Date:*** On-going ***Responding Official:*** Eric Nouchi, MQD Finance Officer, (808) 692-7956
p74-75, 2017-002	***Views of responsible officials:*** The Department does not dispute the finding and has implemented corrective action. ***Corrective Action Taken or Planned:*** The Department contracted with a vendor in July 2017 to assist MQD with business process redesign. Part of this process redesign includes reviewing staffing models and processes. KOLEA system is programmed to trigger the mandatory annual reverification process. MQD continues to encourage applicants to apply using the Online KOLEA portal to reduce eligibility processing time. In September the Department developed a "buck slip" with instructions and web address information to encourage online accessibility. This slip is mailed out with KOLEA notices and is handed out at eligibility offices. Monthly case management reports continue to be developed. Monthly reporting tools in the KOLEA system Analytics Dashboards continue to be enhanced to improve reporting tools for Supervisors and staff. KOLEA continues to automatically re-determine eligibility based on information existing on record in the KOLEA system. Therefore, eligibility is being re-determined in accordance with Title 42 CFR Part 435.916. Effective March 2017, the Department began sending pend notices to validate resources of the non-MAGI population. During the period October - December 2016, it was identified that upon auto renewal of cases, the "Next Review Date" for some cases were not

Page(s), Finding	**Views of Responding Officials, Corrective Action Plans, Status, Responding Official**
	being extended. As a result, the Department believes that the reports used for this audit may have over-inflated the number of untimely renewals. This fix was resolved with KOLEA Modification Release 3.030 released on December 17, 2016. This fix auto extends the renewal date when the batch event on a case is "New Application" or "Renewal." ***End Date:*** Completed with on-going monitoring and training. ***Responding Person:*** Kimberly Lutao, MQD Eligibility Branch Administrator
p76-77, 2017-003	***Views of responsible officials:*** The Department does not dispute the finding and has implemented technical and training improvements to address this issue to ensure compliance with the Federal requirements. ***Corrective Action Taken or Planned:*** The Division reviewed the electronic document management process and discovered only limited staff were able to scan from their computers. Staff were previously required to scan and validate scans at the centralized scanning stations only. This created a backlog of documentation that needed to be scanned into the KOLEA system. The Division has submitted employee information to allow all staff access to validate scans directly from their assigned workstations. Alerts are generated on the case record when a scan is ready to be reviewed and processed. In addition, KOLEA also accepts scanned attachments from multi-function printer copiers. Navigators and Health Care Outreach Branch (HCOB) staff now have the ability to upload client documentation directly to the case file prompting alerts on the case for review and processing. The Division continues to improve maintenance of case files. The Division continues to improve the KOLEA Analytics Reporting tool to better manage cases. Supervisors took part in four hands-on training sessions which were designed to teach supervisors how to utilize the functionality of the reporting tool. The Division is actively working towards attaining asset verification services. A contract was awarded on March 15, 2018 with the contract start date scheduled for April 1, 2018. KOLEA interfaces with the Department of Labor

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	and Relations (DLIR) for electronic verification of income. The KOLEA modification was released December 17, 2016 Release 3.030. ***End Date:*** Completed with on-going monitoring and training. ***Responding Person:*** Kimberly Lutao, MQD Eligibility Branch Administrator
p78-79, 2017-004	***Views of responsible officials:*** The Department agrees with the finding and will implement corrective action. ***Corrective Action Taken or Planned:*** 1. We changed our case review process to the AKAMAI case review program which has upgraded our tracking capabilities to monitor Eligibility Determination compliance. The system provides immediate feedback to counselors, supervisors, and Branch Administrators on counselors' performance and compliance with federal regulations as well as existing policies and procedures. We anticipate completing our first planned statewide case review using the AKAMAI program in June 2018. 2. All supervisors will complete one case review per counselor per week, along with reviewing Akamai data reports for compliance by counselors on established Eligibility Determination timelines. Supervisors will meet with each counselor to discuss his/her performance and ensure that eligibility is determined within a reasonable period of time, not to exceed 60 days after the individual has submitted an application for vocational rehabilitation (VR) services, or a signed agreement has been documented within the 60 days for an extension associated with unforeseen/exceptional circumstances. 3. All Branch Administrators will meet with their supervisors weekly to discuss staff's eligibility determination compliance report generated by AKAMAI and identified deviations based on their data analysis to address needed improvements by staff and any system-wide

Page(s), Finding	**Views of Responding Officials, Corrective Action Plans, Status, Responding Official**
	challenges that may need further analysis for improvements to be sustained. 4. Staff are encouraged to attend webinars/training to learn about data analysis for evaluation and to enable them to determine root causes of noncompliance or compliance. The first webinar on the VR Program Evaluation Tool is scheduled for March 21, 2018. 5. Branch Administrators will submit a report to the Division of Vocational Rehabilitation (DVR) Administrator to include their branches compliance and identified deviations on the 10th day of each month, inclusive of actions taken to resolve and bring services into compliance with our policies and procedures. 6. Statewide case reviews will be completed in June and December 2018. ***End Date:*** December 2018 ***Responding Person:*** Maureen Bates, DVR Administrator, and Susan Foard, DVR Assistant Administrator
p80-81, 2017-005	***Views of responsible officials:*** The Department agrees with the finding and will implement corrective action. ***Corrective Action Taken or Planned:*** 1. The Division of Vocational Rehabilitation (DVR) has changed our case review process to the AKAMAI electronic case review system which will upgrade our tracking capabilities to monitor compliance of completing our Individualized Plan for Employment (IPEs) in a timely manner. The program will provide immediate feedback to counselors, supervisors, and Branch Administrators on the counselors' performance. We anticipate completing our first statewide case review using the AKAMAI program in June 2018. 2. All supervisors will complete one case review per counselor per week and complete data analysis on their counselors' IPE compliance. Supervisors will meet with each counselor to discuss his/her

Page(s), Finding	Views of Responding Officials, Corrective Action Plans, Status, Responding Official
	performance and ensure that signed IPEs are completed timely and scanned into the client's file in the AKAMAI case management system within two working days. 3. All Branch Administrators will review with their supervisors weekly the status of their counselors' compliance with completing IPEs as soon as possible, but not later than 90 days after the date of the determination of eligibility. The IPE compliance report generated by AKAMAI for their counselors will be reviewed with counselors, supervisors, and Branch Administrators. A monthly summary will be provided to the DVR Administrator by Branch Administrators reflecting all deviations have been addressed with counselors. 4. Staff are encouraged to attend webinars/training to learn data analysis and evaluation to enable them to determine root causes of noncompliance. The first webinar on the Vocational Rehabilitation Program Evaluation Tool is scheduled for March 21, 2018. 5. Branch Administrators will submit monthly reports (by 10th) to the DVR Administrator which will include their branches compliance and identified deviations with confirmation of reviews with counselors completed. 6. Statewide case reviews will be completed in June and December 2018. ***End Date:*** December 30, 2018 ***Responding Person:*** Maureen Bates, DVR Administrator, and Susan Foard, DVR Assistant Administrator
p82, 2017-006	***Views of responsible officials:*** The Department agrees with the finding and will implement corrective action. ***Corrective Action Taken or Planned:*** 1. Based upon the results of the May 2017 Case Review report, the Division of Vocational Rehabilitation (DVR) Administrator will issue an Internal Communication Form (ICF) outlining the Division's

Page(s), Finding	Views of Responding Officials, Corrective Action Plans, Status, Responding Official
	requirement for maintaining proper case documentation to support eligibility determinations which will include the requirement that case documentation to support eligibility determinations be completed and/or scanned into the client's file in the AKAMAI case management system within two working days. The ICF will be completed and distributed to Branch Administrators by March 31, 2018 for implementation. A follow up review of compliance with implementation of ICF will be reviewed against statewide June 2018 full case review. 2. All supervisors will complete one case review per counselor per week and evaluate their counselors' adherence to the ICF requirements and timelines. Supervisors will meet with each counselor to discuss his/her performance and provide assistance as identified in their evaluation of the counselor's performance. If counselor's performance is excellent/full compliance sustained, positive acknowledgement to the counselor will be made. 3. All Branch Administrators will meet with their supervisors weekly to discuss the status of their counselors' adherence to the ICF requirements and timelines. Root causes for deviation outcomes will be identified and corrected as appropriate. If counselor's performance is excellent, positive praise to the counselor will be made. 4. Branch Administrators will submit reports to the DVR Administrator on the 10th day of each month to include progress on addressing changes needed to resolve identified root causes for identified findings. 5. Branch Administrators will attend monthly leadership meetings with the DVR Administrator to review deviations per AKAMAI reports and supervisors' case reviews. 6. Statewide case reviews will be completed in June and December 2018.

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	End Date: December 2018 ***Responding Person:*** Maureen Bates, DVR Administrator, and Susan Foard, DVR Assistant Administrator
p83-84, 2017-007	***Views of responsible officials:*** The Department agrees with the finding and has implemented corrective action. ***Corrective Action Taken or Planned:*** Since mid-2013, the Child Care Program Office (CCPO) staff has been working with the subsidy contractor in standardization of the contractor's Quality Assurance (QA) review protocols and instrument to be used for continuous quality improvement assessment of performance and staff training needs regarding accuracy of payments issued. The contractor is required to do monthly QA reviews, with CCPO providing the list of selected cases to the contractor. ResCare staff conducts secondary sample case reviews of the contractor's cases for monitoring purposes and ensuring reliability of the contractor's QA process. The CCPO program staff continues to monitor the contractor and provide policy clarifications as needed to the contractor. CCPO completed the Federal Improper Payment Review of Federal Fiscal Year (FFY) 2015 cases and provided information to both the Child Care Connection Hawaii contractor and First-To-Work units regarding the common errors identified. CCPO and the Employment and Training Program Office (ETPO) collaborated on a statewide meeting in November 2016 with all of the First-To-Work supervisors to review the errors found and the correct procedures that staff should be following. CCPO also issued a policy clarification in July 2017 that again reviewed the information provided in the November 2016 training. The Staff Development Office (SDO) updated the child care modules for the First-To-Work training for new First-To-Work case workers to include the information. During the FFY 2015 federal review process, CCPO provided on-going updates to the Child Care Connection Hawaii contractor of the errors identified and the correct procedures that staff should be following. CCPO staff along with ETPO staff, starting March 2018, will be reviewing child care

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	cases for the Federal Improper Payment Review of FFY 2018. CCPO will again provide on-going updates to the Child Care Connection Hawaii and First-To-Work units of errors being identified and providing the correct procedures that staff shall follow. SDO resumed the training of new staff of the Child Care Connection Hawaii contractor from June 2017 and on. All of the contractor's current staff completed refresher training by SDO in June 2017. CCPO also developed modifications to the child care case management data system that were implemented in January and February 2018 that requires system checks to verify data is entered in the data system in order to authorize child care subsidy payments, including whether: 1) background checks are completed for exempt providers caring for children whose families receive subsidy from DHS, and 2) an income calculator for staff to enter all of the income received for all household members and the data system will auto-calculate the gross monthly income for the family to determine the family co-payment rate for calculating the child care subsidy benefit amount. These two types of errors were common errors found in the Federal Improper Payment Reviews for Hawaii. The Department will also revisit seeking the assistance of DHS Quality Control (QC) unit to conduct secondary sample case reviews of the contractor's cases to assist in identifying areas in which additional training or policy clarification may be needed for the contract staff. CCPO had originally requested DHS QC assistance in mid-2012, however due to the caseload of the DHS QC unit it was determined that the DHS QC unit would not be able to assist CCPO in conducting secondary reviews until possibly 2019, dependent on the ability of DHS QC unit in filling vacant positions and provision of training for QC staff. For the First-To-Work (FTW) Program that issues child care subsidies to families participating with the Program, staff from the Employment & Training Program Office (ETPO) has incorporated the child care subsidy portion into the established monthly case reviews conducted by unit supervisors and section administrators and quarterly case reviews

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<tr><th>Page(s), Finding</th><th>Views of Responding Officials, Corrective Action Plans, Status, Responding Official</th></tr>
<tr><td></td><td>conducted by ETPO. Of the cases that are sampled for their FTW Work Verification Plan reviews, the FTW staff will be utilizing an audit checklist to determine whether necessary documents are on file, eligibility was properly determined, and the child care subsidy issued was properly authorized. Training was provided to the units to ensure consistency in how they are conducting the reviews. Training was also provided to the FTW staff to reinforce policies regarding issuance of child care assistance for FTW clients. Beginning March 2018, ETPO will collaborate with the Staff Development Office to restructure the FTW and HANA System Training to allow additional time to be spent on the child care subsidies modules. Furthermore, through policy clarifications (PC), ETPO intends to compile common errors identified through the various case reviews and provide instructions to the FTW staff. The PC discussing the findings from both the state audit and federal review was issued in March 2016.

CCPO issued a Desk Aid for child care subsidy staff for both the Child Care Connection Hawaii and FTW offices in June 2015 to assist staff and contractors with common data entry errors into the DHS child care case management system.

End Date: On-going

Responding Person: Dana Balansag, BESSD Child Care Program Administrator</td></tr>
<tr><td>p85-86,
2017-008</td><td>Views of responsible officials: The Department agrees with the finding and will implement corrective action.

Corrective Action Taken or Planned: Our plans to reduce and/or eliminate these errors have included and will continue to include:

1. CWS staff will double check that the amount of the adoption assistance payment matches the amount on the Agreement form which may include added or revised DOC payments.

2. CWS staff will double check that the DOC amount is accurate and reflected on the DOC worksheet on and the Agreement form. Both</td></tr>
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Page(s), Finding	Views of Responding Officials, Corrective Action Plans, Status, Responding Official
	forms are to be filed in the adoption assistance payment case in accordance with procedures. 3. Supervisors are to check for the above two steps prior to authorizing payments in the CPSS database. 4. Section Administrators will conduct monthly random reviews of three adoption assistance payment cases to verify that the payment amounts in CPSS match what is filed on both the Agreement form and the DOC form. 5. Continue refresher trainings to staff on existing policies and procedures. 6. Follow-up with the units involved in these findings to ensure the staff are knowledgeable about the error findings and how to ensure future errors are prevented from occurring again. 7. Management Information and Compliance monitor will conduct periodic reviews of payment only cases to monitor compliance to agency policy and procedures. 8. Program Development will conduct quarterly checks to monitor timely case reviews by Section Administrators. ***End Date:*** On-going ***Responding Person:*** Bernadette Lane, SSD Assistant Program Administrator
p87-88, 2017-009	***Views of responsible officials:*** The Department does not dispute the finding and has implemented technical and training improvements to address this issue to ensure compliance with the Federal requirements. ***Corrective Action Taken or Planned:*** The Division reviewed the electronic document management process and discovered only limited staff were able to scan from their computers. Staff were previously required to scan and validate scans at the centralized scanning stations only. This created a

<table>
<tr><th>Page(s), Finding</th><th>Views of Responding Officials, Corrective Action Plans, Status, Responding Official</th></tr>
<tr><td></td><td>backlog of documentation that needed to be scanned into the KOLEA system. The Division has submitted employee information to allow all staff access to validate scans directly from their assigned workstations. Alerts are generated on the case record when a scan is ready to be reviewed and processed. In addition, KOLEA also accepts scanned attachments from multi-function printer copiers. Navigators and HCOB staff now have the ability to upload client documentation directly to the case file prompting alerts on the case for review and processing. The Division continues to improve maintenance of case files.

End Date: Completed with on-going monitoring and training.

Responding Person: Kimberly Lutao, MQD Eligibility Branch Administrator</td></tr>
<tr><td>p89-90, 2017-010</td><td>Views of responsible officials: The Department agrees with the finding and will implement corrective action.

Corrective Action Taken or Planned: CWS will initiate changes with their current vendors to maximize usage of the TANF funds covered under this grant.

1. Meeting with those contracted vendors servicing CWS clientele that may fall within the eligibility parameters of this grant to be held March 28, 2018.

2. Will cover the submittal of the Client Eligibility List (CEL)
a. How to complete the form
b. Importance of timely monthly submittal
c. Federal Compliance
d. Streamline processes mentioned in Item #4 below.

3. CWS will send out monthly reminders to all vendors regarding the submittal of the CEL.
a. The CWS/MIC monitor, will coordinate this function including assurances that the CEL's are submitted in a timely manner.</td></tr>
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Page(s), Finding	Views of Responding Officials, Corrective Action Plans, Status, Responding Official
	b. Capturing monthly CEL data in a spreadsheet which SSD will provide to the auditors in their annual audit visit. 4. The three (3) contracts addressed in the audit finding have addressed issues raised. a. One of the vendors has placed the CEL onto their workers laptops so that they can address the monitoring out in the field. b. Vendor's Quality Assurance staff will be checking monthly with their staff on the captured numbers. c. One of the vendors will be initiating a "refresher" training to staff in late March or early April; covering TANF recipients and the CEL. d. One of the vendors has changed their process whereby all new referrals will be completing the CEL, the eligibility page, in hopes of increasing their participation rate of those eligible under the TANF grant. ***End Date:*** On-going ***Responding Person:*** Lucy Pascual, SSD Support Services Office Administrator
p91-92, 2017-011	***Views of responsible officials:*** The Department agrees with the finding and will implement corrective action. ***Corrective Action Taken or Planned:*** SSD will need to assure greater compliance with its established policies and procedures in regards to the monitoring of subrecipient awards. 1. Work within the contract SSD has with the University of Hawaii/Maui Community College (UH/MCC) to initiate and include subrecipient awards as part of the onsite standard administrative monitoring tool to ensure that Purchase of Services providers that are subjected within the subrecipient threshold should provide Uniform Guidance

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	Audit Reports timely, by the end of the 1st quarter, March 31, following the calendar year end. 2. SSD/SSO/MIC monitor will be assigned to work with UH/MCC in monitoring awardees under this category. ***End Date:*** On-going ***Responding Person:*** Lucy Pascual, SSD Support Services Office Administrator
p93-94, 2017-012	***Views of responsible officials:*** The Department agrees with the finding and will implement corrective action. ***Corrective Action Taken or Planned:*** The Financial Assistance Program (FAP) office continues to work with the training office to ensure that newly hired eligibility workers are given correct and consistent program policy procedures. The training office has been requested to place emphasis on the child support procedures which includes taking timely action to close a case when notified by Child Support Enforcement Agency (CSEA) of non-compliance. The FAP office is currently working with the CSEA to review how notification of non-compliance is received by BESSD from the CSEA. This may result in changing the current procedure to improve and assist the eligibility worker in taking timely action. The FAP office is working with the Office of Information Technology on modifying the current HAWI system to prevent the system from processing payments when there is an outstanding issue of child support non-compliance. There has to be coordination between three offices. ***End Date:*** On-going ***Responding Person:*** Cheryl Chang, BESSD Financial Assistance Program Specialist

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p95-96, 2017-013	***Views of responsible officials:*** The Department agrees with the finding and will implement corrective action. ***Corrective Action Taken or Planned:*** A dedicated team is assigned to maintain the State's Federal TANF Data Reports (TDR). It is the team's responsibilities to recommend any HAWI and HANA system modifications to ensure correct data is extracted; determine if the TDR is compliant with the Federal TANF reporting requirements; review reports received from the Administrator for Children and Families (ACF) and take appropriate actions such as resolving incorrect or omitted data and coding errors; and respond to questions and TDR issues raised by ACF. The team consists of: 1. A financial assistance program specialist who reviews the ACF reports; takes appropriate action to resolve eligibility and data entry errors in the HAWI system; and makes revisions and maintain soft and hard-copy files of the IT written instructions; 2. An employment and training program specialist who reviews the ACF reports; takes appropriate action to resolve work activity hours and data entry errors in the HANA system; and 3. Programmers from the Office of Information Technology (OIT) who program data extractions from the HAWI and HANA systems; compile the data according to the IT written instructions maintained by the program specialists; and submit the TDR to ACF. The team reviewed the findings and the IT written instructions. ACF Region 9 was consulted regarding the interpretation and application of the policies. Corrections will be made to the instructions to resolve data elements 28 (TANF Family Exempt from the Federal Time-Limit Provisions), 39 (Parent with Minor Child in the Family), and 49 (Work Participation Status). The team will consult with ACF, when necessary.

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	End Date: On-going ***Responding Person:*** Paul Higa, BESSD Financial Assistance Program Administrator and Catherine Scardino, BESSD Employment and Training Program Administrator
p97-98, 2017-014	***Views of responsible officials:*** The Department agrees with the finding and will implement corrective action. ***Corrective Action Taken or Planned:*** The Financial Assistance Program (FAP) office continues to work with the training office to ensure training of newly hired eligibility workers are trained in the proper procedures in processing an application and on-going case. ***End Date:*** On-going ***Responding Person:*** Cheryl Chang, BESSD Financial Assistance Program Specialist
p99-100, 2017-015	***Views of responsible officials***: The Department agrees with the finding and will implement corrective action. ***Corrective Action Taken or Planned:*** 1. All supervisors will complete one case review per counselor per week to evaluate the root causes for not following the existing policies and procedures to have the Individualized Plan for Employment (IPEs) properly approved. Supervisors will meet with each counselor to discuss his/her performance and provide assistance as identified in their evaluation of the counselor's performance. If counselor's performance is excellent, positive feedback will be provided. 2. All Branch Administrators will meet with their supervisors weekly to discuss the status of their counselors' adherence to the existing policies and procedures. Root causes for their outcomes will be identified and corrected as appropriate. If counselor's performance is excellent, positive feedback will be provided.

Page(s), Finding	**Views of Responding Officials, Corrective Action Plans, Status, Responding Official**
	3. Branch Administrators will submit reports to the Division of Vocational Rehabilitation (DVR) Administrator on the 10th day of each month to include progress on addressing identified root causes for deviations associated with reported finding. 4. Branch Administrators will attend monthly leadership meetings with the DVR Administrator to review deviations per Akamai reports and supervisors' case reviews. Updates to the current policies and procedures will be completed if needed. 5. Statewide case reviews will be completed in June and December 2018. ***End Date:*** December 2018 ***Responding Person:*** Maureen Bates, DVR Administrator, and Susan Foard, DVR Assistant Administrator
p101-102, 2017-016	***Views of responsible officials:*** The Department does not dispute the finding and is implementing the corrective actions noted below. ***Corrective Action Taken or Planned:*** The Division's Drug Utilization Review (DUR) committee has been meeting on a quarterly basis and has oversight of drug utilization for the fee-for-service program, which is relatively small. An activity that the Division implemented was a drug formulary for the dental program that put quantity limits for narcotics. On a quarterly basis prescribers of opioids are monitored for the number of prescriptions as well as quantity prescribed. Utilization of expensive claims are also reviewed for medical appropriateness. The Clinical Standards Office will be working on establishing a post-payment review process for drug claims submitted for the fee-for-service program. ***End Date:*** December 2018 ***Responding Person:*** Leslie K. Tawata, MQD Clinical Standards Office Administrator

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p103-104, 2017-017	***Views of responsible officials:*** The Department agrees with the finding and has begun to establish procedures to monitor the drug rebate program. ***Corrective Action Taken or Planned:*** The Department is working on the incorporation of an informal process into a final written process of the drug rebate process that will also ensure submission of drug rebate files to CMS by our fiscal agent. Since the implementation of an informal process, there have been no late submissions for the last 2 consecutive quarters and both have been accepted by CMS on a timely basis. The Division will work on formal procedures to monitor our contractor and research on what other States have implemented to monitor drug rebates will be taken into consideration in the development of Hawaii's procedures. ***End Date:*** December 2018 ***Responding Person:*** Leslie K. Tawata, MQD Clinical Standards Office Administrator
p105, 2017-018	***Views of responsible officials:*** The Department agrees with the finding and will implement corrective action. ***Corrective Action Taken or Planned:*** SSD has proposed a reorganization plan to ensure proper delegation of duties, mainly as it pertains to who will file the necessary reports timely. The reporting responsibilities will be that of the CWS/Planner V position that is part of the proposed reorganization plan for SSD. However, until the reorganization plan has been approved and initiated, the CWS/Assistant Branch Administrator will be responsible for this reporting requirement. ***End Date:*** June 30, 2019 ***Responding Person:*** Cynthia Goss, SSD CWS TA-Branch Administrator