OFFICE OF THE AUDITOR

STATE OF HAWAIʻI

2019 ANNUAL REPORT

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* This report was prepared by professional services firm Baker Tilly Virchow Krause LLP. Published under their cover, the report did not receive an office report number.

COVER PHOTO: OFFICE OF THE AUDITOR

Doing More with Less

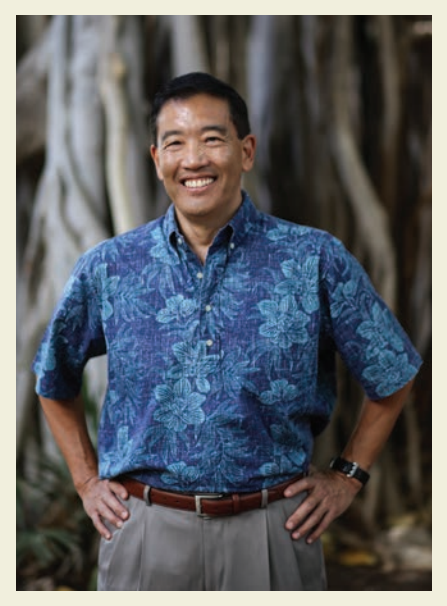

PHOTO: MICHAEL KEANY

WELCOME to this annual report, which highlights the work of the Office of the Auditor in 2019.

Over the course of the year, we issued 44 reports, a mix of performance and financial audits, reviews, follow-ups, and studies. Four of those reports involved the Honolulu Authority for Rapid Transportation (HART), an agency of the City and County of Honolulu. Those were a departure from the norm – our audits typically assess the performance of state agencies and their programs. However, during the 2017 First Special Session, state lawmakers established a new funding mechanism for Honolulu's rail project and directed the Auditor to examine aspects of HART's financial management. We reported that HART management's inaccurate reporting of its estimated costs to complete the project and the estimated completion date undermined the HART Board's oversight of the project and its ability to hold the executive director accountable for project overruns and delays. We also found many of HART's senior management positions and other critical positions were staffed by a third-party consultant and evaluated by and accountable only to their private employer, not HART. The review also found HART had approved monthly invoices that averaged about $800,000 per month with little substantive review.

Mission of the Office of the Auditor

Improving government through independent and objective analyses.

We also completed performance audits of two Department of Land and Natural Resources' special funds: the Land Conservation Fund, which supports the Legacy Land Conservation Program, and the Special Land and Development Fund, which funds the Land Division and other sections within the department. As their names might suggest, the two funds have very different purposes – conservation vs. development – but we identified similar issues with the way the funds are managed. Both audits revealed shortcomings in planning, transparency, and accountability that hinder the Legacy Land Conservation Program and the Land Division's abilities to effectively achieve their statutory missions. We also reported the department had not accurately reported the balances in the special funds to the Legislature, including underreporting the Special Land and Development Fund's cash balances by more than $1.5 million.

The State has limited resources to address urgent needs across the islands – and resources have grown more limited and needs starker since the close of 2019. We are committed to our mission of improving government through independent and objective analyses. And as we move forward, we will continue to hold agencies accountable for their use of public resources and recommend ways agencies can improve their operations, efficiently use government resources, and effectively serve the citizens of our great state.

I would be remiss if I didn't recognize the hard working and dedicated staff at the Office of the Auditor. Your commitment to our work, and our State, is commendable and you have my heartfelt thanks.

Aloha,

Leslie H. Kondo
State Auditor

PHOTO: ISTOCK.COM

Bringing Government Agencies into Focus

Our 2019 reports provide important information programs and lawmakers can refer to in the future.

FOR MANY OF US, 2019 feels like a distant memory. It was a challenge to take my eyes off the pandemic ball, if even for a moment, to write this essay. However, the current health emergency does not diminish the importance of the work the Office of the Auditor performed in 2019, which will affect the funding and operation of these critical agencies for many years to come.

Honolulu Authority for Rapid Transportation (HART)

In January 2019, we issued *The Buck Stops… Where? Report on HART's Management Structure, Decision-Making Processes, and Use of Third-Party Consultants in Key Management Positions*, the second in a series of four reports we issued on the Honolulu Rail Transit Project. We found, among other things, that while HART has a board of directors, HART's CEO has broad authority on what information he chooses to report; information he chooses to withhold from the Board obscures how much HART has allocated for specific work, leaving members unable to ensure the project is on budget. Our report also found that HART was paying a third-party contractor $9.6 million a year for roughly 19 embedded staff. Since they are employed by the contractor, HART doesn't evaluate the embedded staff's performance, despite paying $505,260 per individual per year on average, leaving us to conclude that even if we know how much HART pays in wages, we can't determine whether it's getting its money's worth. The report also found the CEO didn't deem it necessary to seek Board approval before pursuing a public-private partnership to build the last leg of the rail line, and today, after two years of seemingly fruitless effort, the majority of voting board members and the Honolulu Mayor want the process halted.[1]

The Department of Land and Natural Resources' Land Conservation Fund

We issued reports on two Department of Land and Natural Resources (DLNR) special funds in 2019. Our first report, *A Little Less Conservation: Audit of the Department of Land and Natural Resources' Land Conservation Fund,* examined the dedicated source of funding for the Legacy Land Conservation Program, which is responsible for purchasing land for preservation, then operating, maintaining, and managing those lands. We found that the program awarded more than $47.3 million in grants for the purchase of land from FY2006 through FY2017 even though it had not prepared a statutorily required Resource Land Acquisition Plan. The report also found several more specific concerns with program implementation and financial management. For instance, program staff missed fiscal deadlines to create and execute contracts for grant awards, triggering an improper "domino effect" of borrowing future funds or using anticipated future appropriations to fund previous awards. We also found that program staff have not been tracking or reporting the balances of Land Conservation Fund moneys transferred to a DLNR trust account to the Legislature.

The Department of Education's Administration of School Impact Fees

In September 2019, we issued *A Low-Impact Exercise: Audit of the Department of Education's Administration of School Impact Fees*, evaluating a program that collects impact fees from builders of new residential units to offset the cost of future educational facilities in designated school impact districts. Our audit found that the department has no written policies and procedures for selecting potential impact fee districts or establishing their boundaries, and that instead of establishing what conditions would trigger designation of an impact district, one person's intuition or professional judgment can affect which builders need to pay the fees and when they are collected.

Looking back, moving forward

Our reports include recommendations that are critical for agencies to review and adopt in order to address operational issues and other shortcomings identified during the audit. We also follow-up with agencies to assess whether recommendations made in these reports have been implemented. In addition, our reports provide important background information about how a program may be run, how it may be operating, how effective it is, and what value it brings to the State, which legislators can use as reference as they look at performance and funding for the future. While some may feel our reports put state agencies in the spotlight, we believe our work helps bring what may be happening into focus. Every state agency must be accountable for its work and its use of public money. As we move forward as a State to meet the urgent health, economic, and social needs caused by the pandemic, we hope the work we've done in the past and the work we'll do in the future provide the transparency necessary to make government better.

Summaries of our 2019 fund reviews, performance and financial audits, studies, and analyses are included in this report or visit **auditor.hawaii.gov** to read reports in their entirety.

[1] "HART board's 7-2 vote fails to halt P3 process," Honolulu Star-Advertiser, October 28, 2020: https://www.staradvertiser.com/2020/10/28/hawaii-news/hart-boards-7-2-vote-fails-to-halt-p3-process.

Summary of 2019 Reports

Audit of the Department of Land and Natural Resources' Land Conservation Fund

Report No. 19-01, January 2019

PHOTO: DEPARTMENT OF LAND AND NATURAL RESOURCES

Our performance audit of the Department of Land and Natural Resources' (DLNR) Land Conservation Fund was conducted pursuant to Act 209, Session Laws of Hawai'i 2017, which required the Office of the Auditor to review contracts, grants, and memoranda of understanding entered into, awarded by, or otherwise involving the fund during fiscal years 2016 and 2017 to determine whether expenditures complied with laws and contractual agreements.

DLNR HAS DELEGATED RESPONSIBILITY for administering the Land Conservation Fund and the associated Legacy Land Conservation Program to its Division of Forestry and Wildlife, which has struggled to properly manage the program. For example, we found the department did not plan for a seamless transition when the former manager of the Legacy Land Conservation Program resigned, causing many of the issues that we report. Moreover, the department appears to misunderstand its ability to commit future funds – i.e., moneys that it does not have – until those funds are appropriated to the program through the Legislature's budget process. We also found that DLNR has not developed a Resource Land Acquisition Plan, as mandated by statute. Without a long-range plan, the program and DLNR's land conservation actions lack clear, consistent, and transparent direction and purpose; without a plan, DLNR's management of the program and its use of the Land Conservation Fund is arbitrary, opaque, and may be inconsistent with the State's long-term land conservation goals. The need for a plan is magnified by the relatively fluid composition of the Board of Land and Natural Resources and the importance of the State's mission of stewardship over public lands.

Without a clear roadmap in place, there is an increased risk that decisions regarding land acquisitions will be arbitrary and inconsistent, and subject to change with each new board, commission, and department head. Although some flexibility and adaptability are necessary, the determination of what is the State's "best interest" in this regard should not be so reliant on subjective understanding and personal biases.

After a little more than a decade in existence, the Legacy Land Conservation Program has awarded 58 projects with $47.3 million in grant moneys. Only about half of these projects has reached completion – i.e., land purchased and conserved. Almost a third of the awards are still pending. Since the acquisition of conservation land can be a complicated process, and considering the relative infancy of the program, it is difficult to determine if the program is achieving its statutory purpose.

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PHOTO: HAWAI'I STATE FOUNDATION ON CULTURE AND THE ARTS

Follow-Up on Recommendations from Report No. 14-11, *Audit of the Hawai‘i State Foundation on Culture and the Arts*

Report No. 19-02, January 2019

Section 23-7.5, Hawai‘i Revised Statutes (HRS), requires the Auditor to report to the Legislature annually on each audit recommendation more than one year old that has not been implemented by the audited department or agency. This report presents the results of our review of 29 recommendations made to the Hawai‘i State Foundation on Culture and the Arts and the Department of Accounting and General Services (DAGS) in Report No. 14-11, Audit of the Hawai‘i State Foundation on Culture and the Arts, *which was published in November 2014.*

IN REPORT NO. 14-11, *Audit of the Hawai‘i State Foundation on Culture and the Arts*, we found that the Foundation's Board of Commissioners (Commission) lacked training, bylaws, and other mechanisms to focus its attention on policy and planning, and subsequently focused its efforts on operations, such as art acquisition. As a result, the Commission adopted an unrealistic strategic plan that did not provide for artist fellowships and failed to address more than $4 million in accumulated funds dedicated for the arts. The plan also lacked targeted objectives for gauging, monitoring, and reporting performance. Moreover, we found that the Commission failed to ensure its deliberations and actions were conducted as openly as possible in compliance with the State's open meetings law, Chapter 92, HRS, and that its annual report failed to contain recommendations to the Legislature, as required by Section 9-3, HRS. Lastly, we found that neither the Foundation nor the State Comptroller actively monitored amounts due from state agencies to the Works of Art Special Fund and that the Department of Budget and Finance's attempts to track such transfers were inadequate.

We found that the Foundation's Board of Commissioners (Commission) lacked training, bylaws, and other mechanisms to focus its attention on policy and planning, and subsequently focused its efforts on operations, such as art acquisition. As a result, the Commission adopted an unrealistic strategic plan that did not provide for artist fellowships and failed to address more than $4 million in accumulated funds dedicated for the arts.

Our follow-up on the Foundation's and DAGS' implementation of recommendations made in Report No. 14-11, conducted between October 2016 and July 2018, included interviewing selected personnel, examining relevant documents and records, and evaluating whether the Foundation's and DAGS' actions appeared to address our recommendations. We found that the Foundation and DAGS have implemented 16 of the 29 recommendations and partially implemented 7. Six recommendations have not been implemented and remain open.

Audit of the Honolulu Authority for Rapid Transportation: Report 1

Report No. 19-03, January 2019

PHOTO: HONOLULU AUTHORITY FOR RAPID TRANSPORTATION

Our audit of the Honolulu Authority for Rapid Transportation (HART) was conducted pursuant to Act 1, which the Hawai'i State Legislature passed during the 2017 First Special Session. Act 1 requires the Auditor to conduct an audit of the financial records and an analysis of the financial management of HART. This audit report focuses on the background and issues relating to, among other things, the estimated project costs, construction schedules, and completion dates from 2014. This audit was somewhat unique for us in that HART is a quasi-independent agency of the City and County of Honolulu (City) and not an agency of the State of Hawai'i. However, the State Constitution, Article VII, Section 10, empowers the Auditor to conduct audits of all departments, offices, and agencies of the State and its political subdivisions.

IN 2012, the City broke ground on a 20.1 mile elevated rail transit system extending from Kapolei to Ala Moana. We found that, as the Honolulu Rail Transit Project progressed and costs swelled from $5.12 billion in 2012 to $9.2 billion in 2018, HART began reporting information to the public that often contradicted its own internal projections or differed from what it was telling the Federal Transit Administration (FTA). Since federal funding for the project is fixed at $1.55 billion, the financial burden on state residents, as well as visitors, has escalated along with the estimated costs to complete Honolulu's rail transit system.

We also found the City prematurely entered into contracts under an artificial timeline and fragile financial plan, stemming from a desire to demonstrate that the project was progressing satisfactorily and to minimize public criticism. For instance, when the City awarded its first construction contract in 2009, the environmental review process was still underway and the FTA had not yet approved entry into the final design phase of the federal grant process or authorized pre-grant award construction activities. The City awarded the $483 million contract anyway, citing concerns over rising costs and loss of tax revenue. Over the next two years, prior to receiving FTA approval to begin construction in 2012, the City would award more contracts totaling nearly $2 billion. Overall, these prematurely awarded contracts resulted in $354.4 million in change orders, as of August 2017, with major change orders still unresolved due to the opening date being pushed back to 2025.

Additionally, as early as April 2014, HART began reporting different project contingency amounts to different audiences, which may have distorted the project's financial outlook and delayed triggering of a recovery plan. Among other things, we found that throughout 2015, while HART was grappling with major unanticipated cost increases, HART's monthly progress reports to the Board failed to include updated project cost estimates and opening date projections that were otherwise reported in FTA oversight contractor meetings and documented in FTA monthly reports. We also found that between 2014 and 2016, the project's contingency reserves fell significantly below FTA-recommended levels; by 2016, total contingency had fallen $1.2 billion below the FTA's recommendation.

Audit of the Honolulu Authority for Rapid Transportation: Report 2

Report No. 19-04, January 2019

PHOTO: HONOLULU AUTHORITY FOR RAPID TRANSPORTATION

Our audit of the Honolulu Authority for Rapid Transportation (HART) was conducted pursuant to Act 1, which the Hawai'i State Legislature passed during the 2017 First Special Session. Act 1 requires the Auditor to conduct an audit of the financial records and an analysis of the financial management of HART. This audit report focuses on HART's management structure, decision-making processes, and use of third-party consultants in key management positions.

WE FOUND THAT, despite recently adopted board rules addressing the division of duties between HART and its Board, there are still gray areas. Without clear lines as to the specific types of information requiring Board consideration, the CEO is given broad discretion over what decisions are his to make. For example, the CEO decided to withhold contract-specific allocated contingency from the HART Board, hindering the Board's ability to assess the total amounts HART has budgeted for specific work, ensure that the project is on-budget, and hold the CEO fully accountable.

We also found that HART relies on a third-party consultant, HDR Engineering, Inc. (HDR), to staff many of HART's senior management positions and other positions directly responsible for and critical to the design and construction of the project. While HART claims that HDR employees are completely integrated into its organizational structure, with no distinction between HDR and HART employees, the embedded HDR employees are paid and evaluated by their private employer, not HART, and many HDR employees directly oversee the work of other HDR employees as well as other third-party consultants. And, while HART is dependent on HDR's employees to complete the project within the current budget and timeline, we found that HART does not evaluate the performance of the embedded HDR employees and approves HDR monthly invoices that average about $800,000, or over $42,000 per HDR employee, with little substantive review.

While HART is dependent on HDR's employees to complete the project within the current budget and timeline, we found that HART does not evaluate the performance of the embedded HDR employees and approves HDR monthly invoices that average about $800,000, or over $42,000 per HDR employee, with little substantive review.

As the Federal Transit Administration has pointed out, filling key management positions with third-party consultants instead of HART employees is less than optimal, leading to less "ownership" and accountability. While we recognize the CEO's concerns about adding civil service positions when HART's operations will eventually be shuttered, there is still a long way to go until the end of the line.

PHOTOS: DEPARTMENT OF TRANSPORTATION

Review of Special Funds, Revolving Funds, Trust Funds, and Trust Accounts of the Department of Transportation

Report No. 19-05, January 2019

Section 23-12, Hawai'i Revised Statutes (HRS), requires the Auditor to review each department's special, revolving, and trust funds every five years. Although not mandated by statute, we included trust accounts as part of our review. This is our sixth review of the Department of Transportation's (DOT) revolving funds, trust funds, and trust accounts, and our second review of DOT's special funds.

WE REVIEWED 377 funds and accounts administered by DOT and reported on 46 of them – specifically, 14 special funds, 21 revolving funds, 5 trust funds, and 6 trust accounts. We found 5 special funds, 17 revolving funds, 1 trust fund, and 1 trust account did not meet criteria – specifically, 16 revolving funds should be reclassified as trust accounts and 1 trust account should be reclassified as a trust fund; 2 special funds should be evaluated to determine whether they should be closed; and 3 special funds, 1 revolving fund, and 1 trust fund should be closed.

We noted that, as of June 30, 2018, certain sub-accounts of three special funds, three revolving funds, and one trust fund had remaining balances totaling approximately $120 million, and had no financial activity during our five-year review period. DOT represents that certain revolving funds, which we determined should be reclassified as trust accounts, are required by bond certificate provisions to hold debt service payments relating to revenue bonds.

We also noted that DOT did not report its administratively created funds to the Legislature, as required by statute. Because these funds are created outside of the legislative process, the Legislature may have limited, if any, understanding as to the existence of the funds or the moneys held in the funds. Accurate and complete reporting will greatly improve the Legislature's oversight and control of these funds and provide increased budgetary flexibility.

Special and revolving funds can only be established pursuant to an act of the Legislature. However, DOT created two funds administratively, outside of the legislative process – specifically, one special fund and one revolving fund. Because those funds were inappropriately created, we recommended that they be closed.

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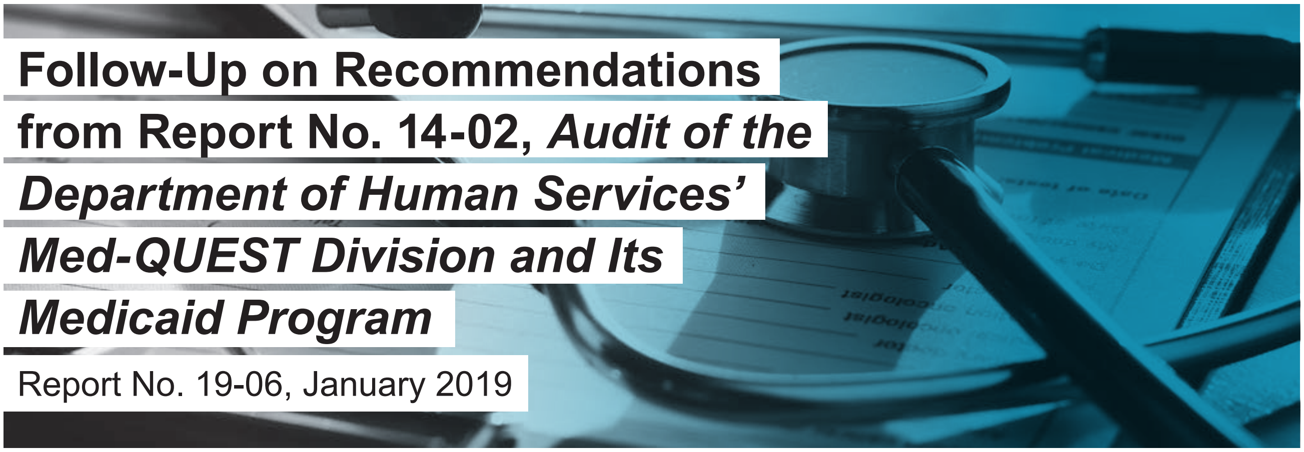

PHOTO: ISTOCK.COM

Follow-Up on Recommendations from Report No. 14-02, *Audit of the Department of Human Services' Med-QUEST Division and Its Medicaid Program*

Report No. 19-06, January 2019

Section 23-7.5, Hawai'i Revised Statutes, requires the Auditor to report to the Legislature annually on each audit recommendation more than one year old that has not been implemented by the audited department or agency. This report presents the results of our review of 19 recommendations made to the Department of Human Services in Report No. 14-02, Audit of the Department of Human Services' Med-QUEST Division and Its Medicaid Program.

THE 2013 LEGISLATURE directed the Office of the Auditor to conduct a comprehensive financial audit of the Department of Human Services' (DHS) Med-QUEST Division, with emphasis on the Medicaid program. With state contributions to the Medicaid program nearly doubling from FY2010–FY2015, the Legislature was concerned about the relevance and usefulness of the information it receives from the division.

During our 2014 audit, we found that the Med-QUEST Division concentrated its reporting around meeting federal measures and requirements, with a focus on the quality of health care services delivered, rather than state concerns, which are largely related to costs. We also found that division management had neglected to commit sufficient resources to its efforts to curb fraud, waste, and abuse. As a result, Hawai'i's detection and enforcement activities lagged far behind national averages, exposing the State to tens of millions of dollars in losses annually.

Our follow-up on DHS' implementation of recommendations made in Report No. 14-02, conducted between October 2016 and September 2018, found that DHS has implemented 10 and partially implemented 6 of the 19 recommendations. Three recommendations have not been implemented and remain open.

During our 2014 audit, we found that the Med-QUEST Division concentrated its reporting around meeting federal measures and requirements, with a focus on the quality of health care services delivered, rather than state concerns, which are largely related to costs. We also found that division management had neglected to commit sufficient resources to its efforts to curb fraud, waste, and abuse.

PHOTO: AIRMED

Study of Proposed Mandatory Health Insurance Coverage for Medically Necessary Transportation from the State to the Continental United States for "Qualifying Patients"

Report No. 19-07, February 2019

We assessed the social and financial impacts of mandating insurance coverage for medically necessary transportation from Hawai'i to the continental United States as proposed in House Bill No. 687, pursuant to Sections 23-51 and 23-52, Hawai'i Revised Statutes (HRS). Section 23-51, HRS, requires passage of a concurrent resolution requesting an impact assessment by the Auditor before any legislative measure mandating health insurance coverage for a specific health service, disease, or provider can be considered. The 2018 Legislature requested this assessment through House Concurrent Resolution No. 52, Senate Draft 1, House Draft 1.

HAWAI'I'S GEOGRAPHIC ISOLATION and relatively small population make it difficult for Hawai'i physicians and medical teams to sufficiently maintain their skills and physical resources to treat certain uncommon conditions or perform uncommon procedures. Consequently, Hawai'i currently lacks many sub-specialty medical services requiring expertise that is obtained in high volume medical centers, and patients requiring such procedures must sometimes seek treatment at facilities in the continental United States.

We surveyed Hawai'i's health-plan providers and found that demand for air ambulance transportation from the state to the mainland is relatively low. The two largest health insurance providers in the state reported a total of 28 members were recommended for medical transportation to the continental United States in 2016 and 2017. However, when air ambulance service from Hawai'i to the continental United States is not covered by a patient's insurance, the financial burden on the patient and their family can be devastating. Given the huge cost for an air ambulance to the continental United States – estimates range from $42,000 to $112,000 for a single trip – few patients can afford to pay without assistance.

Based on the insurers' and medical facilities' responses, it appears that the proposed legislation may lead to fewer patients being approved, which would be contrary to the intent of the bill.

We found that in most cases, insurers have been providing coverage for air ambulance transportation to the continental United States when deemed "medically necessary," although a number of requests for such transportation were denied. The determination of medical necessity is left to the health insurance provider on a case-by-case basis. But the proposed legislation includes a definition for "qualified patient" that survey respondents anticipate would reduce the number of conditions that would be covered if the Legislature mandated insurance coverage for medically necessary transportation to the continental United States. Therefore, based on the insurers' and medical facilities' responses, it appears that the proposed legislation may lead to fewer patients being approved, which would be contrary to the intent of the bill.

Financial and Program Audit of the Department of Health's Deposit Beverage Container Program

Report No. 19-08, March 2019

PHOTO: ISTOCK.COM

Section 342G-17, Hawai'i Revised Statutes, requires the Office of the Auditor to conduct a management and financial audit of the Deposit Beverage Container Program in fiscal years ending in even numbers. We contracted KMH LLP (KMH), a certified public accounting firm, to conduct this financial and program audit for the fiscal year ended June 30, 2018.

AS IN PRIOR YEARS' AUDITS, we found that the program has failed to develop and execute procedures to verify the accuracy and completeness of data used to support claims of the deposit and container fees paid to the program by the distributors as well as deposits and handling fees paid to the redemption centers. Without such procedures, the program relies on self-reported data and accepts that cash receipts from the distributors and payments made to redemption centers are accurate and complete. As a result, KMH's testing found inaccuracies and possible fraudulent reporting in the data used in the aforementioned calculations. For example, during KMH's detailed testing of 24 distributors, KMH found exceptions in 6 distributors' records supporting their claims about the number of beverage containers. One distributor did not respond to KMH's request for supporting records or schedules. Two others could not provide information on container count, container fee, and deposit amounts. As a result, KMH could not fully complete its testing.

In early October 2018, KMH performed 15 unannounced visits to 10 different redemption center locations throughout the state to verify that they were complying with the law. In two visits to the same site, the amount of money KMH was paid for redeeming recyclable materials was significantly less than the amounts recorded in the redemption center's cash receipt log, which appeared to have been altered. Department of Health (DOH) had reimbursed the redemption center the inflated amount.

In two visits to the same site, the amount of money KMH was paid for redeeming recyclable materials was significantly less than the amounts recorded in the redemption center's cash receipt log, which appeared to have been altered. DOH had reimbursed the redemption center the inflated amount.

The program is essentially an honor system, but without accurate, verifiable deposit beverage container records, the true cost of the program cannot be ascertained. Moreover, if the program is under-collecting beverage container deposits from distributors, then the program may not be financially self-sustaining; if the program is overpaying redemption claims, paying more than once for stolen and resubmitted containers, or paying handling fees for containers that are not shipped to end-use recyclers, then the cost of the program may be far more than is justified.

Sunrise Analysis: Regulation of Home Inspectors

Report No. 19-09, March 2019

PHOTO: ISTOCK.COM

Our Sunrise Analysis: Regulation of Home Inspectors *was conducted pursuant to Senate Concurrent Resolution No. 27, Senate Draft 1, which requested that the Auditor conduct a sunrise review of the licensure and regulation of home inspectors as proposed under Senate Bill No. 2403. Senate Bill No. 2403 proposes a regulatory framework that includes the creation of a licensing board and requirements for licensure.*

AS OF NOVEMBER 2018, Hawai‘i was 1 of 17 states that does not regulate its home inspection industry. According to the Hawai‘i Association of Realtors, home inspections are conducted for the majority of residential real estate transactions, typically initiated by home buyers who want to know a property's condition before committing to what could be the single largest purchase of their life. Contracting the services of a qualified home inspector may be a home buyer's first line of defense.

In Report No. 19-09, we evaluated whether the profession of home inspecting should require licensing and regulation by the State of Hawai‘i. Our analysis compared the regulation of home inspectors proposed in Senate Bill No. 2403 against criteria provided in the Hawai‘i Regulatory Licensing Reform Act. The law states that regulation shall be undertaken only where reasonably necessary to protect the health, safety, and welfare of the consumer of services.

A home inspection is primarily an observation-based, non-invasive review of a residential property that culminates in a written report describing any identified defects. In our review, we found no documented complaints about home inspection businesses or individuals filed with state agencies such as the Office of Consumer Protection, or with non-government organizations like the Better Business Bureau. This lack of data hindered our ability to assess the safety of current industry practices; however, we found no evidence of abuse by home inspectors or that the work of a home inspector reasonably affects the health, safety, and welfare of a home buyer.

Further, we found that home inspectors' work is limited and not intended to assess whether a property complies with local building codes. When potential issues are identified, the homebuyer must often hire another qualified, licensed professional to provide services that go beyond a home inspection. Based on the limited scope of work that home inspectors perform, and an absence of reported complaints, we are unable to conclude that regulation of home inspectors is "reasonably necessary to protect the health, safety, or welfare of consumers," nor can we conclude that the health, safety, or welfare of consumers may be "jeopardized" by the nature of home inspection services.

Based on our assessment, we did not find evidence sufficient to meet the criteria under Section 26H-2, Hawai‘i Revised Statutes, to require the regulation of home inspectors to protect the health, safety, or welfare of consumers.

PHOTO: OFFICE OF THE AUDITOR

Overview of Proposed Special and Revolving Fund Analyses

Report No. 19-10, March 2019

This report compiles our analyses of new special and revolving funds proposed by 2019 legislative bills. The analyses were prepared in accordance with Section 23-11, Hawai'i Revised Statutes (HRS), which requires the Auditor to analyze all legislative bills introduced each session that propose to establish new special or revolving funds. Our work was performed from January to February 2019.

WE REVIEWED 98 Senate and House bills proposing 80 special and revolving funds during the 2019 legislative session and determined that none met criteria.

Only about half the money the State spends each year comes from its main financial account, the general fund. The other half of expenditures are financed by special, revolving, federal, and trust funds. Over the past 10 years, the number of these non-general funds and the amount of money contained in them have substantially increased. Much of this upward trend has been caused by an increase in special funds, which are funds set aside by law for a specified object or purpose.

In 2013, the Legislature amended Section 23-11, HRS, after the Auditor recommended changes to stem a trend in the proliferation of special and revolving funds over the past 30 years. Such funds erode the Legislature's ability to control the state budget through the general fund appropriation process. General funds, which made up about two-thirds of state operating budget outlays in the late 1980s, had dwindled to about half of outlays.

By 2011, special funds amounted to $2.48 billion, or 24.3 percent, of the State's $10.2 billion operating budget. Also ballooning were revolving funds, which are used to pay for goods and services and are replenished through charges to users of the goods and services or transfers from other accounts or funds. By 2011, revolving funds made up $384.2 million, or 3.8 percent, of the State's operating budget.

Further hampering the Legislature's control over the budget process was a 2008 court case. In Hawai'i Insurers Council v. Linda Lingle, Governor of the State of Hawai'i, the Hawai'i Supreme Court determined that under only certain conditions could the Legislature "raid" special funds to balance the state budget. In 2013, in order to gain more control over the budget process, the Legislature built new safeguards into the criteria for establishing special funds.

Despite the new criteria, the proliferation of special and revolving funds persists: in FY2019, the general fund comprised 52 percent of the state operating budget, with special and revolving funds comprising 23 percent or $3.29 billion.

Despite the new criteria, special and revolving funds persist: in FY2019, the general fund comprised 52 percent of the state operating budget, with special and revolving funds comprising 23 percent or $3.29 billion.

PHOTO: HONOLULU AUTHORITY FOR RAPID TRANSPORTATION

Review of the Department of Accounting and General Services' Verification of the Honolulu Authority for Rapid Transportation's Invoices

Report No. 19-11, March 2019

Act 1, passed by the Legislature during the 2017 First Special Session and codified as Section 23-14, Hawai'i Revised Statutes (HRS), requires the Auditor to conduct an annual review of the Honolulu Authority for Rapid Transportation (HART) to determine whether (1) expenditures by the authority comply with the criteria established by Section 46-16.8(e), HRS, and (2) whether the authority follows accounting best practices in substantiating its expenditures.

DURING THE 2017 First Special Session, the Legislature provided an additional source of state tax revenue for the Honolulu rail project and established the Mass Transit Special Fund to hold this revenue and other state funding collected for the construction of the rail project. The Legislature, however, limited the use of these state revenues to "capital costs" and prohibited certain specific expenses. To access the moneys in the special fund, Act 1 requires the HART to submit invoices to the Department of Accounting and General Services (DAGS), which must verify that the costs comply with Act 1.

We found that DAGS has not promulgated administrative rules, as required by law, to implement its invoice verification responsibilities and has no plans to do so. Without these rules, DAGS' implementation of its responsibilities under Act 1 is arbitrary, opaque, and subject to change without any notice – all of which administrative rules are intended to prevent. We also found that DAGS fundamentally misunderstands its statutory responsibilities and, as a result, is performing tasks and other work peripheral to its sole mission of verifying HART's invoices. For instance, DAGS is performing time-consuming and redundant spot checks that mimic more extensive reviews that HART previously performed and is re-performing other work that HART is responsible for, such as assessing the sufficiency of documentation that supports HART's approval of change orders. To compound matters, DAGS has not provided its audit staff with the proper training, guidance, and support to adequately carry out their verification duties, instead relying on its staff auditors' ability to independently understand and construe Act 1.

DAGS responsibilities under Act 1 are relatively narrow: verify that the invoices HART submits contain only capital costs and none of the specific, prohibited expenses. However, DAGS auditors are busy performing redundant tasks and cannot review all the costs submitted by HART for payment. Instead, DAGS auditors "sample" only a very small fraction of the costs contained in each invoice. Therefore, besides wasting time and money, DAGS' review efforts provide nothing more than a false sense of assurance that revenues from the Mass Transit Special Fund are spent properly.

Honolulu Authority for Rapid Transportation: Contract and Vendor Compliance Review Report

May 2019

PHOTO: HONOLULU AUTHORITY FOR RAPID TRANSPORTATION

Act 1, passed by the Hawai'i State Legislature during the 2017 First Special Session, requires the Auditor to audit the financial records of the Honolulu Authority for Rapid Transportation (HART) and analyze its financial management. We contracted with professional services firm Baker Tilly Virchow Krause, LLP (Baker Tilly) to examine HART's contractor invoice review and payment processes for compliance with documented policies and procedures, as well as the rail authority's enforcement of contract billing terms and conditions. Baker Tilly prepared the Honolulu Authority for Rapid Transportation: Contract and Vendor Compliance Review Report. *It is the fourth report on HART's financial management in accordance with Act 1.*

FOR THIS AUDIT, Baker Tilly reviewed 150 of the 1,070 invoices processed by HART in fiscal years 2017 and 2018. Valued at $205,210,198, the invoices in the test population represent 31 percent of the costs HART incurred during that two-year period. Baker Tilly found that HART's review and payment of contractor and consultant invoices was, generally, consistent with HART's documented payment application procedures. However, Baker Tilly noted certain errors and inconsistencies that are reported as "observations" in the report. Although the financial impact of the observations appears relatively insignificant, we note that the reported "leakage" of public funds is based on a very small sample of invoices and, irrespective of the amount, constitutes "overspending" of public funds. Baker Tilly did not perform work to assess whether the issues reported about HART's administration of certain contracts and payments under those contracts existed prior to the test period or are applicable to other contracts that were outside of Baker Tilly's scope of work.

Specifically, Baker Tilly found that HART paid an additional $21,302 in labor charges to contractor Lea + Elliott, Inc. (Lea + Elliott) in 2015 because the contractor used a provisional overhead rate to calculate its labor charges rather than the higher audited rate for 2015. HART did not require Lea + Elliott to apply the audited rate to their 2015 indirect project costs, which would have resulted in a credit of $21,302 to HART. However, because the difference between the provisional and audited overhead rates was less than 3 percent, HART chose not to require a credit of the amount "overpaid" and allowed Lea + Elliott to continue to use the 2014 labor rate for 2016 and 2017, as well, adding additional costs of $102,655 and $34,312, respectively. HART said it intends to reconcile the audited overhead rates for 2016 and 2017 through an amendment to the contract, as well as the 2015 and prior years' audited overhead rates. According to HART, Lea + Elliott has agreed to credit $21,302 to HART.

Baker Tilly also reviewed 8 of the 40 invoices submitted by HDR Engineering, Inc. (HDR) during the audit period and determined HDR had overcharged HART $5,143 by applying the wrong billing rate in 12 of the 100 labor transactions in the test sample. HART did not detect the errors in its invoice review process and is seeking reimbursement.

Baker Tilly's test sample represents a tiny fraction of the estimated $9.2 billion it will cost to complete the rail project, and the overages in this report are correspondingly small. However, Baker Tilly's observations did demonstrate the potential for error. To restore confidence in this project, HART should be more diligent and mindful about how it manages public money.

Audit of the Department of Land and Natural Resources' Special Land and Development Fund

Report No. 19-12, June 2019

PHOTO: ISTOCK.COM

Our audit of the Department of Land and Natural Resources' (DLNR) Special Land and Development Fund was conducted pursuant to Act 209, Session Laws of Hawai'i 2017. Act 209 requires the Auditor to conduct a performance audit of DLNR's Special Land and Development Fund. Act 209 also requires an audit of DLNR's Land Conservation Fund, which was issued in a separate report.

DLNR'S LAND PORTFOLIO contains more than 1,600 income-generating properties that produce substantial revenue through the issuance of long-term leases and one-year revocable permits. Those proceeds are held with other revenues in the Special Land Development Fund (SLDF), which DLNR relies on to fully fund its Land Division, the Office of Conservation and Coastal Lands, and the Engineering Division's Dam Safety and Geothermal programs, as well as supplement the budgets of other offices and divisions within the agency.

Our audit focused on the Land Division's management of its public lands and its administration of the SLDF. We found the Land Division does not have a strategic plan for the long-term management of its public lands, an asset management plan to optimize revenue in keeping with its public trust obligations, or clear and coherent policies and procedures to guide its day-to-day operations. This absence of long-range planning has left the Land Division staff without the expertise, resources, and options to actively and effectively manage its land portfolio. Not only is the division ill-prepared to take advantage of opportunities to enhance revenues for the state, it also cannot perform two core lease management functions: collecting delinquent rent and performing annual field inspections. Due to these shortcomings, lease extensions have become the norm, which potentially benefits a few lessees at the cost of foregoing substantial state revenues and denying the wider public new opportunities to lease state land. Similarly, most of the Land Division's "temporary" revocable permits are decades old, which has allowed a number of tenants to continue using thousands of acres of public land, many at less than fair market rates.

When it comes to administration of the SLDF, we found DLNR does not accurately account for moneys in the special fund and underreported cash balances to the 2018 Legislature by more than $1.5 million. It has also allowed more than $1.5 million to sit idle in the SLDF for more than five years.

DLNR and the Land Board's inability to do anything but maintain the status quo has led to a loss of revenue for the state, as well as a loss of opportunities for potential lessees to lease public lands. Further, special funds are created for specific programs and purposes and cannot be used for anything else. Inaccurate reporting obscures whether the funds are being used appropriately, as well as if there are excess moneys that could be moved into the general fund to address other priorities within and outside of DLNR.

Audit of the Department of Education's Administration of School Impact Fees

Report No. 19-13, September 2019

PHOTO: ISTOCK.COM

Hawai'i's school impact fee law, codified as Sections 302A-1601 through 302A-1612, Hawai'i Revised Statutes, requires that all builders of new residential units within a designated school impact district pay impact fees – individual home builders and large developers alike. The law sets forth formulas for calculating school impact fees, which include land for new schools (or fees in lieu of land) and a percentage of the estimated cost to build new schools. This report examines the Department of Education's (DOE) assessment, collection, and accounting of school impact fees.

DOE COLLECTS SCHOOL IMPACT FEES to offset the cost of new and expanded educational facilities needed to serve new residential developments. However, we found the department has no written policies and procedures for the selection of potential school impact districts, the factors that should be considered in determining the size of potential districts, or oversight and review of this process. These determinations are the responsibility of a single DOE employee, a Land Use Planner who relies on "intuition" and "professional judgment" to evaluate the need for new schools and classrooms in areas experiencing residential growth. This has led to inconsistencies, particularly in DOE's calculation of school impact fees, which at times were based on questionable assumptions, such as residential growth projections tied to Honolulu's unfinished rail project.

We also found that DOE does not begin assessing school impact fees immediately upon the Board of Education's designation of a school impact district, sometimes waiting months before beginning collection. In addition, the department is dependent on the cooperation of county building departments to enforce the school impact fee law, although it has not promulgated administrative rules to proscribe the process it intends the counties to follow before issuing building permits for new residential construction in an impact fee district. Hawai'i County decided not to cooperate after the first school impact district was designated in West Hawai'i, leading the DOE to suspend implementation.

Since 2007, only $5.3 million in school impact fees have been collected – a fraction of the $80 million to $100 million DOE estimates it needs to build a single school. DOE's inconsistent and problematic implementation of the school impact fee law calls into question the relevance and appropriateness of the fees that have been collected to date. The delay in assessing school impact fees from residential developers in the urban O'ahu school impact district alone allowed developers to avoid paying school impact fees relating to 32 building permit applications, representing a total of 2,806 planned residential units; we estimate that nearly $11 million in potential fee revenue was not collected.

The designated district boundaries raise further questions about whether they satisfy the constitutional requirement that there be a "nexus," or reasonable connection, between the development of new residential units and the need for additional classroom capacity.

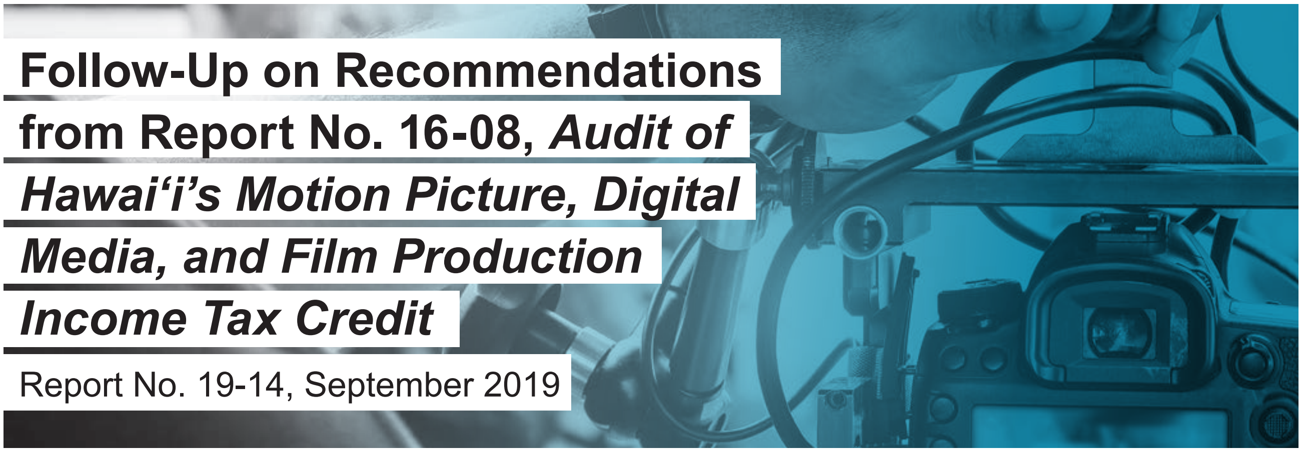

PHOTO: ISTOCK.COM

Follow-Up on Recommendations from Report No. 16-08, *Audit of Hawai‘i's Motion Picture, Digital Media, and Film Production Income Tax Credit*

Report No. 19-14, September 2019

Section 23-7.5, Hawai‘i Revised Statutes (HRS), requires the Auditor to report to the Legislature annually on each audit recommendation more than one year old that has not been implemented by the audited department or agency. This report presents the results of our follow-up on the Department of Taxation (DoTAX) and the Hawai‘i Film Office's implementation of the nine audit recommendations made in Report No. 16-08, Audit of Hawai‘i's Motion Picture, Digital Media, and Film Production Income Tax Credit*, which was published in November 2016.*

IN 2016, we found that DoTAX had broadened the scope of the film tax credit to include out-of-state expenses subject to tax under Chapter 238, HRS, as "qualified production costs" eligible for the credit. We reported that DoTAX's implementation of the tax credit was inconsistent with the plain language of the statute and the Legislature's intent for the incentive to stimulate economic growth, which increased the cost of the film tax credit to the state. Expenditures paid to out-of-state businesses and service providers do not infuse money into Hawai‘i's economy or provide income for local residents, nor do they create local jobs.

We also found that DoTAX had not adopted administrative rules needed to provide assurance that the film tax credit is properly administered. Without such rules, tax credit qualification requirements were unclear, the Film Office did not have the administrative tools to enforce deadlines and other filing requirements, and there was little assurance that claimed production costs qualified for the tax credit.

At the time of our 2016 audit, the film tax credit statute had been in place for over 10 years. As part of the audit, we found a number of provisions in the latest publicly released version of the proposed rules that should be revised to provide greater assurance that the film tax credit is managed in accordance with the statute's intent. Finally, we found that the lack of reliable and timely information made it difficult to evaluate whether, from a cost-benefit perspective, the film tax credit is beneficial to the State and for the Legislature to determine whether or not to extend the credit beyond 2018. The Film Office's analysis of film tax credit data did not measure the incentive's true costs and reported economic impacts that were based on incomplete and overstated data.

Two recommendations have not been implemented and remain open. We also found that DoTAX continues to construe the film tax credit statute to include out-of-state expenditures as "qualified production costs."

Our follow-up, conducted between February and June 2019, found that DoTAX and the Film Office have fully implemented one recommendation and have partially implemented six of the nine recommendations. Two recommendations have not been implemented and remain open. We also found that DoTAX continues to construe the film tax credit statute to include out-of-state expenditures as "qualified production costs."

Report on the Implementation of State Auditor's Recommendations 2014 – 2017

Report No. 19-15, November 2019

PHOTO: OFFICE OF THE AUDITOR

This is a report on the follow-up reviews of state departments' and agencies' implementation of recommendations contained in audit reports issued in calendar years 2014–2017. We conducted the follow-ups pursuant to Section 23-7.5, Hawai'i Revised Statutes (HRS), which requires the Auditor to report to the Legislature on each recommendation that the Auditor has made that is more than one year old and that has not been implemented by the audited agency.

EVERY YEAR, we follow up on recommendations made in our audit reports. We ask affected agencies to provide us with the status of their implementation of the recommendations made in our reports starting a year after the report was issued. After two or three years, we conduct a more rigorous follow-up review. Those reviews, which we refer to as "active reviews," include interviewing selected personnel from the agency and examining the agency's relevant policies, procedures, records, and documents to assess whether its actions fulfilled our recommendations. Our efforts are limited to reviewing and reporting on an agency's implementation of recommendations made in the original audit report. We do not explore new issues or revisit issues that do not relate to our original recommendations.

From 2014 to 2017, we made 141 audit recommendations, of which the affected agencies reported partially or fully implementing 121. We based our scope and methodology on the United States Government Accountability Office (GAO) guidelines, published in *How to Get Action on Audit Recommendations* (1991), as well as the Government Auditing Standards and Section 23-7.5, HRS.

According to the GAO, saving tax dollars, improving programs and operations, and providing better service to the public represent audit work's "bottom line." Recommendations are the vehicles by which these objectives are sought.

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However, it is action on recommendations – not the recommendations themselves – that helps government work better at less cost. Effective follow-up is essential to realizing the full benefits of audit work.

PHOTO: OFFICE OF THE AUDITOR

Review of Special Funds, Revolving Funds, Trust Funds, and Trust Accounts of the Department of the Attorney General

Report No. 19-16, November 2019

Section 23-12, Hawai'i Revised Statutes, requires the Auditor to review all existing special, revolving, and trust funds every five years. Reviews are scheduled so that each department's funds are reviewed once every five years. Although not mandated by statute, we include trust accounts as part of our reviews. This is our sixth review of the Department of the Attorney General's (AG) revolving funds, trust funds, and trust accounts, and our second review of the AG's special funds.

WE REVIEWED 21 funds and accounts administered by the AG and reported on 19 of them. We found two revolving funds, two trust funds, and two trust accounts did not meet criteria. We recommended two revolving funds and one trust fund be reclassified as special funds, one trust fund be reclassified as a trust account, one trust account be reclassified as a trust fund, and one trust account be closed.

We noted that the AG did not file statutorily required reports for non-general funds with balances totaling $84,000 and for administratively created funds with balances totaling more than $1 million. Accurate and complete reporting provides important information to legislators about an agency's financial position.

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Study of Proposed Mandatory Health Insurance for Clinical Victim Support Services for Victims of Sexual Violence and Abuse

Report No. 19-17, December 2019

PHOTO: ISTOCK.COM

We assessed the social and financial impacts of mandating insurance coverage for clinical victim support services as proposed in House Bill No. 484, pursuant to Sections 23-51 and 23-52, Hawai‘i Revised Statutes (HRS). Section 23-51, HRS, requires passage of a concurrent resolution requesting an impact assessment by the Auditor before any legislative measure mandating health insurance coverage for a specific health service, disease, or provider can be considered. The 2019 Legislature requested this assessment through Senate Concurrent Resolution No. 171, Senate Draft 1.

HOUSE BILL NO. 484, introduced during the 2019 legislative session, would mandate health insurance coverage for clinical victim support services for victims of sexual violence and abuse. The bill defines "clinical victim support services" as "professional intervention conducted by a licensed mental health provider to identify needs and assist in obtaining coordinated, appropriate services and resources for a victim of sexual violence and abuse to curtail or prevent the progression and worsening of mental disorders and associated functional impairments caused, in whole or in part, by the sexual violence and abuse."

We were unable to determine the number of sexual violence victims who received any of the clinical support services specified in House Bill No. 484; more generally, however, three of the four 24/7 statewide sexual violence service providers reported serving a total of 1,579 victims in 2017 and 1,614 in 2018. A new policy implemented by the State's largest insurer in January 2019 identified a medical code that licensed mental health providers can use to bill for support services provided to victims of sexual assault, and the second largest insurer plans to do the same. The medical code will make it easier to determine how many victims of sexual violence and abuse obtain support services.

In terms of financial impact, most insurers surveyed said mandated coverage would likely increase the cost of services, but none provided an estimate. The State's three largest providers, who insure 73 percent of Hawai‘i residents, stated those services are already covered.

The State's Insurance Commissioner testified the proposed coverage mandate could be construed as an additional benefit under the State's essential health benefits, which would obligate the State to defray the cost. Once the State's two largest insurers both have medical codes in place, they will be able to track how often the services are being provided and billed for, and whether the claims are being approved by insurers. This data will be helpful to the Legislature if it considers mandating health insurance coverage for these support services in the future.

Summary of 2019 Financial Audits

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To attest to the fairness of agencies' financial statements, the Office of the Auditor, through contracted CPA firms, examines the adequacy of their financial records and accounting and internal controls, and determines the legality and propriety of the expenditures. In 2019, we administered the following financial audit contracts. Those contracts include the State's Comprehensive Annual Financial Report and its Single Audit Report.

Financial Audit of the Comprehensive Annual Financial Report of the State of Hawai'i Financial Statements, Fiscal Year Ended June 30, 2019

The State of Hawai'i provides a range of services in the areas of education (both lower and higher), welfare, transportation (including highways, airports, and harbors), health, hospitals, public safety, housing, culture and recreation, economic development, and conservation of natural resources.

The State's Comprehensive Annual Financial Report (CAFR) includes the audited financial statements of the State's governmental activities (functions of the state that are typically supported by taxes and intergovernmental revenues) and its business-type activities (which rely to a significant extent on fees and charges for support). The State's business-type activities include the Department of Transportation's Airports Division, the Department of Transportation's Harbors Division, and the Unemployment Compensation Fund. These functions are intended to recover all or a significant portion of their costs through user fees and charges. The activities of seven legally separate component units (the Hawai'i Community Development Authority, the Hawai'i Health Systems Corporation, the Hawai'i Housing Finance and Development Corporation, the Hawai'i Hurricane Relief Fund, the Hawai'i Public Housing Authority, the Hawai'i Tourism Authority, and the University of Hawai'i) are also included.

For fiscal year 2019, total revenues were $12.7 billion and total expenses were $12.9 billon, resulting in a decrease in net position of $200 million. Approximately 61 percent of the State of Hawai'i's total revenues came from taxes of $7.8 billion, 25 percent from grants and contributions of $3.2 billion, and 13 percent from charges for various goods and services of $1.7 billion. The largest expenses were for lower education at $3.5 billion, welfare at $3.4 billion, higher education at $1 billion, health at $1 billion, and general government at $1 billion.

As of June 30, 2019, total liabilities and deferred inflows of resources of $27.2 billion exceeded total assets and deferred outflows of resources of $24.8 billion, resulting in a net position of $2.4 billion. Of this amount, $4.9 billion was for the State's net investment in capital assets, $3.7 billion was restricted for specific programs, and a negative $10.8 billion was in unrestricted assets.

The State of Hawai'i received an unmodified opinion from the auditors at Accuity LLP that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles.

Single Audit of Federal Financial Assistance Programs of the State of Hawai'i Financial Statements, Fiscal Year Ended June 30, 2019

Each year, the federal government provides over $400 billion dollars in grants to state and local governments. Single audits provide assurance to the federal government that state agencies and programs receiving federal funds are expending those funds properly. This report includes the total federal expenditures and findings for the following departments: Labor and Industrial Relations, Budget and Finance, Commerce and Consumer Affairs, Public Safety, Agriculture, Accounting and General Services, Business, Economic Development and Tourism, Land and Natural Resources, and Defense. Federal expenditures for these departments totaled approximately $298 million. Federal expenditures and findings for other departments including the Departments of Health and Transportation are reported in individual audit reports.

DEPARTMENTS	FINANCIAL REPORTING		FEDERAL PROGRAM COMPLIANCE		TOTAL
	MATERIAL WEAKNESS	SIGNIFICANT DEFICIENCY	MATERIAL WEAKNESS	SIGNIFICANT DEFICIENCY	
Defense	-	-	4	1	**5**
Accounting and General Services	1	2	-	1	**4**
Land and Natural Resources	-	-	1	3	**4**
Labor & Industrial Relations	-	-	0	1	**1**
TOTAL	**1**	**2**	**5**	**6**	**14**

Financial and Compliance Audit of the Department of Hawaiian Home Lands Financial Statements, Fiscal Year Ended June 30, 2019

The Department of Hawaiian Home Lands' (DHHL) total revenues exceeded total expenditures by $18.1 million. Revenues totaled $73.8 million and consisted of (1) program revenue of $40.6 million and (2) state appropriations, transfers, and adjustments of $33.2 million. Expenses totaled $55.7 million. Program revenues were comprised of interest income (approximately 27 percent), grants and contributions (11 percent), revenue from the general lease program (43 percent), and other sources (19 percent).

Total assets of $986 million exceeded total liabilities of $100 million, resulting in a net position balance of $886 million. Total assets included net capital assets of $479 million, cash of $370 million, loans receivable of $94 million, and other assets and deferred outflows of resources of $43 million. Loans receivable consisted of 1,336 loans made to native Hawaiian lessees for the purposes specified in the Hawaiian Homes Commission Act. Loans are for a maximum amount of approximately $453,000 and for a maximum term of 30 years. Interest rates on outstanding loans range up to 10 percent. Total liabilities included notes, bonds, and capital lease obligations totaling $52 million and temporary deposits payable and other liabilities of $48 million.

DHHL received an unmodified opinion from the auditors at Akamine, Oyadomari & Kosaki CPA's that the financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. DHHL also received an unmodified opinion on its compliance with major federal programs in accordance with the *Uniform Guidance*. There were no reported deficiencies in internal control over financial reporting that were considered to be material weaknesses and no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Financial Audit of the Stadium Authority Financial Statements, Fiscal Year Ended June 30, 2019

For the fiscal year ended June 30, 2019, the Stadium Authority (Authority) reported total revenues of $11 million and total expenses of $13.5 million, resulting in a net loss of $2.5 million. Revenues consisted of $6.1 million from rentals from attractions, $2.2 million from food and beverage concessionaire commissions, $2 million in parking fees, and $700,000 in advertising and other revenues. The Authority's net loss was partially offset by $7 million in capital contributions, which represents the portion of Aloha Stadium capital improvement costs that were paid by the State of Hawai'i.

Expenses consisted of $4.3 million for depreciation, $5.3 million for personnel services, $1.3 million for utilities, and $400,000 for repairs and maintenance. Additional expenses totaled $2.2 million and included state central services assessments as well as security, professional services, and other costs. And, as of June 30, 2019, total assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources, resulting in a net position of $84.3 million.

The Authority received an unmodified opinion from the auditors at N&K CPAs, Inc. that the financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. The auditors identified one material weakness which is described on page 46 of the report and found $1.4 million in unrecorded capital additions and related capital contributions for the fiscal year ended June 30, 2019 and an understatement in beginning net position of approximately $246,000 as of June 30, 2018.

Financial Audit of the Department of Accounting and General Services, State Motor Pool Revolving Fund, Fiscal Year Ended June 30, 2019

The State Motor Pool Revolving Fund (Fund) reported total revenues of $2.3 million and total expenses of $2.9 million, resulting in a decrease in net position of $600,000 (or 381 percent). Motor vehicle rentals and repairs represented 99 percent of the Fund's total revenue and other income represented 1 percent. Total expenses of $2.9 million consisted of personnel services of $1.3 million, depreciation of $900,000, gas and oil of $300,000, repairs and maintenance of $300,000, and other costs of $100,000.

The Fund received an unmodified opinion by the auditors at KPMG LLP that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. There were no reported deficiencies in internal control over financial reporting that were considered to be material weaknesses and no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Financial Audit of Accounting and General Services, State Parking Revolving Fund, Fiscal Year Ended June 30, 2019

For the fiscal year ended June 30, 2019, the State Parking Revolving Fund (Fund) reported total revenues of $3.9 million and total expenses of $3.7 million. Total revenues consisted of parking assessments of $2.7 million, parking meter collections of $1 million, and traffic fines and other income of $200,000. Total expenses consisted of depreciation of $400,000, personnel services of $1.9 million, repairs and maintenance of $500,000, and other expenses of $900,000.

Capital assets are used to provide parking for employees, contractors with state-related business, and the public. Net capital assets of $14.6 million consist of land of $9.3 million, structures and improvements of $4.9 million, and construction in progress of $400,000.

The Fund received an unmodified opinion from the auditors at KPMG LLP that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. There were no reported deficiencies in internal control over financial reporting that were considered to be material weaknesses and no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Financial and Compliance Audit of the Department of the Attorney General Financial Statements, Fiscal Year Ended June 30, 2019

The Department of the Attorney General (AG) reported total revenues of $109.6 million and total expenses of $109.2 million, resulting in an increase in net position of $400,000. Inflows and outflows of funds related to the CSEA program are accounted for separately in an agency fund. Normally, agency fund assets should be equal to agency fund liabilities, as the funds are held on behalf of others. However, the AG continues to maintain a deficit balance of approximately $551,000 at June 30, 2019. According to the AG, the deficit balance is caused by a combination of uncollected recoupments due from custodial parents resulting from overpayments and uncollected non-sufficient fund payments due from non-custodial parents.

The AG received an unmodified opinion from the auditors at Egami & Ichikawa CPAs, Inc. that the financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. The AG also received an unmodified opinion on its compliance with major federal programs in accordance with the *Uniform Guidance*. There were no material weaknesses and one significant deficiency in internal control over financial reporting that is required to be reported under *Government Auditing Standards*. The significant deficiency related to the agency fund deficit is described on pages 71-73 of the report. There were no other reported findings.

Financial Audit of the Employees' Retirement System of the State of Hawai'i Financial Statements, Fiscal Year Ended June 30, 2018

The Employees' Retirement Service (ERS) reported total net additions of approximately $2.33 billion. Additions consisted of $1.11 billion from contributions and $1.22 billion in net investment income. A total of approximately $1.43 billion in deductions was reported, consisting of $1.40 billion for benefit payments, $16 million for administrative expenses, and $21 million for refund of member contributions. As of June 30, 2018, assets totaled $17.99 billion and liabilities totaled $1.39 billion, leaving a net position balance of $16.60 billion.

ERS received an unmodified opinion from the auditors at KPMG LLP that the financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. There were no reported deficiencies in internal control over financial reporting that were considered to be material weaknesses and no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Financial Audit of the Hawai'i Employer-Union Health Benefits Trust Fund Financial Statements, Fiscal Year Ended June 30, 2019

For the fiscal year ended June 30, 2019, revenues in the Employer-Union Trust Fund's (EUTF) Enterprise Fund totaled $100.6 million and expenses totaled $95.1 million, resulting in a net income of $5.5 million. Revenues consisted of premium revenue self-insurance of $90.4 million, experience refunds of $6.5 million, and investment earnings and other revenues of $3.7 million.

Expenses consisted of benefit claims expenses of $86.3 million, administrative operating expenses of $8.3 million, depreciation of $100,000, and other operating expenses of $400,000. As of June 30, 2019, assets and deferred outflows of resources totaled $169.8 million and liabilities and deferred inflows of resources totaled $64.1 million, resulting in a net position of $105.7 million.

The EUTF reported total additions of $1.23 billion to the other post-employment benefits (OPEB) Trust Fund; additions included $1.1 billion from employer contributions, $131.7 million from net investment earnings, and $25.5 million from other sources. Total deductions were $511.7 million, resulting in a change of fiduciary net position of $722.7 million. As of June 30, 2019, the OPEB Trust Fund net position balance totaled $3.3 billion. The OPEB Trust Fund held $3.37 billion in assets and $71 million in liabilities. The trust fund was established by the EUTF Board of Trustees in 2013 to receive employer contributions to pre-fund OPEB for retirees and their beneficiaries.

EUTF received an unmodified opinion from the auditors at KKDLY LLC that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. There were no reported deficiencies in internal control over financial reporting that were considered to be material weaknesses and no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Financial Audit of the Hawai'i Community Development Authority Financial Statements, Fiscal Year Ended June 30, 2019

Hawai'i Community Development Authority (HCDA) reported total revenues of $3 million and total expenses of $8.5 million, resulting in a decrease in net position of $5.5 million. Revenues consisted of leasing and management activities of $1.8 million, community redevelopment activities of $600,000, investment earnings of $800,000, net lapsed state appropriations of $500,000, and other revenue of $300,000. Total assets and deferred outflows of resources of $200 million exceeded total liabilities and deferred inflows of resources of $21.5 million resulting in a net position of $178.5 million. Of the net position balance of $178.5 million, $23.2 million is unrestricted and may be used to meet ongoing expenses, $6.6 million is restricted for capital projects, and $148.7 million is invested in net capital assets. The agency reported total assets and deferred outflows of resources comprised of (1) net capital assets of $148.7 million, (2) cash of $26.1 million, and (3) receivables, other assets, and deferred outflows of resources of $25.2 million.

HCDA received an unmodified opinion from the auditors at N&K CPAs, Inc. that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. There were no reported deficiencies in internal control over financial reporting that were considered to be material weaknesses and no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Special-Purpose Financial Audit of the Hawai‘i Convention Center Financial Statements, Year Ended December 31, 2019

The Hawai‘i Convention Center (Center) reported total revenues of $14 million, total expenses of $22.4 million, and $11.3 million in net contributions from the Hawai‘i Tourism Authority, which resulted in an increase in net assets of $2.9 million. Revenues consisted primarily of $8.8 million from food and beverage, $2.7 million from rental income, $2.3 million from events, and $200,000 from other revenues. Expenses consisted of $7.4 million for personnel services, $4.1 million for building-related expenses, $4 million for cost of goods sold, and $6.9 million for other costs.

The Center received an unmodified opinion from the auditors at CW Associates, a Hawai‘i CPA corporation, that the financial statements were presented fairly, in all material respects, in accordance with the management agreement between the Hawai‘i Tourism Authority and AEG, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Financial and Compliance Audit of the Hawai‘i Housing Finance and Development Corporation Financial Statements, Fiscal Year Ended June 30, 2019

The Hawai‘i Housing Finance and Development Corporation's (HHFDC) governmental funds are supported primarily by appropriations from the State's General Fund, federal grants, and proceeds of the State's general obligation bonds allotted to HHFDC. Its proprietary funds operate similar to business-type activities and are used to account for those activities for which the intent of management is to recover (primarily through user charges), the cost of providing services to customers.

HHFDC reported total program revenues of $92 million and total program expenses of $43 million. The agency reported total assets and deferred outflows of resources of $1.3 billion comprised of (1) cash of $573 million, (2) investments of $46 million, (3) notes and loans receivable of $537 million, (4) monies due from State and other State departments of $34 million, (5) net capital assets of $64 million, and (6) other assets and deferred outflows of resources of $84 million. The agency reported total liabilities and deferred inflows of resources of $111 million, comprised of revenue bonds payable of $21 million, unearned income of $22 million, estimated future costs of development of $39 million, and other liabilities and deferred inflows of resources of $29 million.

The agency received an unmodified opinion from the auditors at Accuity LLP that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. HHFDC also received an unmodified opinion on its compliance with major federal programs in accordance with the *Uniform Guidance*. The auditors identified a deficiency in internal control over compliance that was considered a significant deficiency and is described on page 84 of the report which notes HHFDC established policies and procedures required by 24 CFR section 93.404; however, these policies and procedures were not written.

Financial Audit of Hawai‘i Tourism Authority, Fiscal Year Ended June 30, 2019

Hawai‘i Tourism Authority (HTA) reported total revenues of $332.4 million, along with $5 million in transfers from other state departments, and total expenses of $108.3 million. Revenues consisted of $95.5 million from the transient accomodations tax, $9.3 million from charges for services, and interest and other revenues of $3.5 million. HTA also reported the cancelation of approximately $224.1 million in debt service payments on general obligation bonds related to the construction of the Hawai‘i Convention Center pursuant to Act 86, Session Laws of Hawai'i 2018, effective July 1, 2018. Total expenses of $108.3 million consisted of $96.4 million for contracts, $7.3 million for depreciation, and $4.6 million for payroll, administrative, and other expenses.

Total assets and deferred outflows of resources of $325.5 million exceeded total liabilities and deferred inflows of resources of $16.5 million, resulting in a net position of $309 million. Total assets and deferred outflows of resources included: (1) cash of $96 million, (2) investments of $3.5 million, (3) land and net capital assets of $196.8 million, and (4) other assets and deferred outflows of resources of $29.2 million.

The agency received an unmodified opinion from the auditors at Accuity LLP that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. There were no reported deficiencies in internal control over financial reporting that were considered to be material weaknesses and no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Financial and Compliance Audit of the Department of Education Financial Statements, Fiscal Year Ended June 30, 2019

Department of Education (DOE) reported total revenues of $3.2 billion and total expenditures of $3.14 billion, resulting in an increase in net position of $65 million. Total revenues of $3.2 billion consisted of (1) $2.03 billion in state-allotted appropriations, net of lapsed funds, (2) $779 million in non-imposed employee wages and fringe benefits, (3) $288 million in operating grants and contributions, (4) $43 million in capital grants and contributions, and (5) $67 million in charges for services. Total expenses of $3.14 billion consisted of $2.95 billion for school-related costs, $83 million for state and school complex area administration, $37 million for public libraries, and $72 million for capital outlay.

DOE received an unmodified opinion from the auditors at KKDLY LLC that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. DOE also received an unmodified opinion on its compliance with major federal programs in accordance with the *Uniform Guidance*. The auditors identified one deficiency in internal control over financial reporting that is considered a significant deficiency. The deficiency is described on pages 53-55 of the report. The auditors identified one deficiency in internal control over compliance that is considered a significant deficiency. The deficiency is described on pages 56-57 of the report.

Financial and Compliance Audit of the Department of Health Financial Statements, Fiscal Year Ended June 30, 2019

Department of Health (DOH) reported total revenues of $860.9 million and total expenses of $800.7 million, resulting in an increase in net position of $60.2 million. Total revenues consisted of $678.4 million from general revenues, $154.3 million from operating grants and contributions, and $28.2 million from service charges. Total expenses consisted of $284 million for health resources, $385.4 million for behavioral health, $81.2 million for environmental health, and $50.1 million for general administration. Total assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources by $1.12 billion.

DOH received an unmodified opinion from the auditors at KMH LLP that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. DOH received a qualified opinion on its compliance with major federal programs in accordance with the *Uniform Guidance*. There was one material weakness and one significant deficiency in internal control over financial reporting that are required to be reported under *Government Auditing Standards*. The material weakness is described on pages 93-94 of the report and the significant deficiency is described on pages 95-97 of the report. There were three material weaknesses in internal control over compliance that are required to be reported in accordance with the *Uniform Guidance*. The material weaknesses are described on pages 98-102 of the report.

Financial and Compliance Audit of the Department of Health, Drinking Water Treatment Revolving Loan Fund Financial Statements, Fiscal Year Ended June 30, 2019

The Department of Health's Drinking Water Treatment Revolving Fund reported revenues consisting of administrative loan fees of $2.3 million, federal contributions of $8.3 million, state contributions of $1.7 million, and other income of $1.1 million, and expenses consisting of administrative expenses of $1.6 million, state program management of $900,000, water protection of $700,000, and other expenses of $1.7 million, resulting in an increase in net position of $8.5 million.

The revolving fund received an unmodified opinion from the auditors at KMH LLP that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles, and an unqualified opinion on its compliance with the Drinking Water State Revolving Funds Program (Program). There were no reported deficiencies in internal control over financial reporting that were considered to be material weaknesses and no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and no findings that were considered material weaknesses in internal control over compliance with the Program.

Financial and Compliance Audit of the Department of Health, Water Pollution Control Revolving Fund Financial Statements, Fiscal Year Ended June 30, 2019

The Department of Health's Water Pollution Control Revolving Fund reported total revenues of $22.8 million consisting of administrative loan fees of $1.7 million, interest income of $4.7 million, state contributions of $2.1 million, and federal contributions of $14.2 million, and total expenses of $4 million consisting of administrative expenses of $3 million and other expenses of $1 million, resulting in an increase in net position of $18.8 million.

The revolving fund received an unmodified opinion from the auditors at KMH LLP that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles, and an unqualified opinion on its compliance with federal statutes, regulations, and terms and conditions of federal awards that apply to the Environmental Protection Agency Audit Guide for Clean Water and Drinking Water State Revolving Fund Programs (Program). There were no reported deficiencies in internal control over financial reporting that were considered to be material weaknesses and no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and no findings that were considered material weaknesses in internal control over compliance with the Program.

Financial and Compliance Audit of the Department of Human Services Financial Statements, Fiscal Year Ended June 30, 2019

The Department of Human Services (DHS) reported total revenues of $3.42 billion and total expenses of $3.46 billion. Revenues consisted of $1.21 billion in state allotments, net of lapsed amounts plus non-imposed employee fringe benefits, and $2.21 billion in operating grants from the federal government. Revenues from these federal grants paid for 63.8 percent of the cost of DHS' activities. Health care and general welfare assistance programs comprised 72.7 and 20.5 percent, respectively, of the total cost.

DHS received an unmodified opinion from the auditors at KMP LLP that its financial statements are presented fairly, in all material respects, in accordance with generally accepted accounting principles. DHS received a qualified opinion on its compliance for all major federal programs, except for Foster Care – Title IV-E, Social Services Block Grant and Disability Insurance/SSI Cluster, which received an unmodified opinion in accordance with the *Uniform Guidance*. There was one significant deficiency in internal controls over financial reporting described on pages 76-77 of the report and 13 material weaknesses in internal control over compliance described on pages 78-99 of the report.

Financial and Compliance Audit of the Hawai'i Public Housing Authority Financial Statements, Fiscal Year Ended June 30, 2019

The Hawai'i Public Housing Authority (HPHA) reported total revenues of $160 million and total expenses of $152 million, resulting in an increase in net position of $8 million. Total assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources by $487 million.

HPHA received an unmodified opinion from the auditors at KMH LLP that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. HPHA also received an unmodified opinion on its compliance with major federal programs in accordance with the *Uniform Guidance*. There were no reported deficiencies in internal control over financial reporting that were considered to be material weaknesses and no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and no findings that were considered material weaknesses in internal control over compliance that are required to be reported under the *Uniform Guidance*.

Financial and Compliance Audit of the Department of Transportation, Administrative Division, Fiscal Year Ended June 30, 2019

The Department of Transportation, Administrative Division (Agency) reported total revenues of $29.5 million, total expenses of $21.4 million, and transfers to other Department of Transportation divisions of $6 million, resulting in an increase in net position of $2.1 million. The transfers relate to unencumbered cash balances related to assessment revenues from those divisions. Revenues consisted of $23 million from assessments, $5.1 million from federal grants, and $1.4 million from other revenue sources. Total expenses of $21.4 million consisted of $10.3 million for operating grants and $11.1 million for administration.

As of June 30, 2019, total assets of $21.4 million were comprised of (1) cash of $18 million, (2) accounts receivable of $1.8 million, and (3) net capital assets of $1.6 million. Liabilities totaled $12.5 million, including a $2.6 million Aloha Tower Development Corporation note payable to the Harbors Division.

The Agency received an unmodified opinion from the auditors at Egami & Ichikawa, Certified Public Accounts, Inc. that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. The Agency also received an unmodified opinion on its compliance with major federal programs in accordance with the *Uniform Guidance*. There were no reported findings.

Financial Audit of the Department of Transportation, Airports Division, Fiscal Year Ended June 30, 2019

The Department of Transportation's Airports Division (DOT–Airports) reported total revenues of $646 million and total expenses of $473 million, resulting in an increase in net position of $173 million. Revenues consisted of $183 million in concession fees, $83 million in landing fees, $163 million in rentals, $126 million in facility charges, $52 million in federal operating and capital grants, and $39 million in interest and other revenues. Total expenses of $473 million consisted of $291 million for operations and maintenance, $122 million in depreciation, $23 million for administration, and $37 million in interest and other expenses. DOT–Airports has numerous capital projects ongoing statewide; construction-in-progress totaled $1.3 billion at the end of the fiscal year.

DOT–Airports received an unmodified opinion from the auditors at KPMG LLP that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. DOT–Airports also received an unmodified opinion on its compliance with major federal programs in accordance with the *Uniform Guidance*. There were no reported deficiencies in internal control and no instances of noncompliance or other matters that required reporting. There were no findings that were considered material weaknesses in internal control over compliance in accordance with the *Uniform Guidance*.

Financial Audit of the Department of Transportation, Harbors Division, Fiscal Year Ended June 30, 2019

The Department of Transportation's Harbors Division (DOT–Harbors) reported total revenues of $198.7 million and total expenses of $93 million, resulting in an increase in net position of $105.7 million. Total revenues consisted of $159.2 million in services, $29.9 million in rentals, $7.9 million in interest income, and $1.7 million in other revenues. Total expenses consisted of $29 million in depreciation, $17.1 million in harbor operations, $9 million in interest and bond costs, $22.3 million for personnel, and $15.6 million in administration and other costs.

Total assets and deferred outflows of resources of $1.45 billion were comprised of: (1) cash and cash equivalents of $419.6 million, (2) receivables of $25.3 million, (3) net capital assets of $987.7 million, and (4) other assets and deferred outflows of resources of $14.6 million. Total liabilities and deferred inflows of resources totaled $451.3 million, comprised of: (1) $282.7 million in revenue bonds payable and related accrued interest payable, (2) $21 million in general obligation bonds payable, (3) $26 million in capital lease obligation and related accrued interest payable, (4) $4.6 million due to other state agencies, (5) $35.9 million in accounts and contracts payable, and (6) $81.1 million in other liabilities and deferred inflows of resources.

DOT–Harbors received an unmodified opinion from the auditors at KKDLY LLC that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. There were no reported deficiencies in internal control over financial reporting that were considered to be material weaknesses and no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Financial and Compliance Audit of the Department of Transportation, Highways Division Financial Statements, Fiscal Year Ended June 30, 2019

For the fiscal year ended June 30, 2019, the Department of Transportation's Highways Division (DOT–Highways) reported total revenues of $558 million and total expenses of $567 million, resulting in a decrease in net position of $9 million. Revenues consisted of (1) $225 million in tax collections; (2) $251 million in grants and contributions primarily from the Federal Highway Administration; (3) $55 million in charges for services; and (4) $27 million in investment income and other revenues. Expenses consisted of (1) $202 million for operations and maintenance; (2) $205 million in depreciation; (3) $145 million for administration and other expenses; and (4) $15 million in interest. As of June 30, 2019, total assets and deferred outflows of resources of $5.41 billion were comprised of (1) cash and investments of $329 million; (2) net capital assets of $5.03 billion; and (3) $50 million in other assets and deferred outflows of resources. Total liabilities of $606 million included $429 million in revenue bonds and $177 million in other liabilities. DOT–Highways has numerous capital projects ongoing statewide; construction in progress totaled $369 million at the end of the fiscal year.

DOT–Highways received an unmodified opinion that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. DOT–Highways also received an unmodified opinion on its compliance with major federal programs in accordance with the *Uniform Guidance*.

There was one material weakness in internal control over financial reporting that is required to be reported under *Government Auditing Standards*. 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. The reconciliation process for FY2019 was not completed until June 16, 2020, more than eleven months after the fiscal year-end. Information about this audit and the material weakness identified by auditors is described on pages 12-16 of the single audit report.

Financial and Compliance Audit of the O‘ahu Metropolitan Planning Organization Financial Statements, Fiscal Year Ended June 30, 2019

The O‘ahu Metropolitan Planning Organization (OahuMPO) reported total revenues of $2.8 million and total expenses of $2.8 million, resulting in no change in net position. Revenues consisted of $2.2 million from federal grants and $564,000 in contributions from the State of Hawai‘i and City and County of Honolulu.

Total expenses consisted of: (1) $309,000 for transportation forecasting and long-range planning, (2) $568,000 for short-range transportation system and demand management planning, (3) $74,000 for transportation monitoring and analysis, (4) $262,000 for emergency management, and (5) $1.6 million for program coordination and administration. OahuMPO received an unmodified opinion from the auditors at N&K CPAs, Inc. that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. OahuMPO received a qualified opinion on its compliance with major federal programs in accordance with the *Uniform Guidance*.

There were no findings that were considered material weaknesses in internal control over financial reporting that would have required reporting under *Government Auditing Standards*. The auditors identified two deficiencies in internal control over financial reporting that were considered significant deficiencies, one of which is also considered a significant deficiency in internal control over compliance. The deficiencies are described on pages 44-47 of the report. The auditors identified one material weakness and one previously noted significant deficiency in internal control over compliance that are required to be reported in accordance with the *Uniform Guidance*. The material weakness is described on pages 48-49 of the report.

The following financial audits were completed in 2019 for prior fiscal years:

Financial Audit of the Department of Land and Natural Resources Financial Statements, Fiscal Year Ended June 30, 2017

The Department of Land and Natural Resources (DLNR) reported total revenues of $177 million and total expenses and transfers of $193.3 million, resulting in a decrease in net position of $16.3 million. Revenues consisted of $72 million from state appropriations, net of lapses, $41 million from charges for services, $35.1 million from operating grants and contributions, $13.2 million from non-imposed employee fringe benefits, $3.9 million from capital grants, and $11.8 million from taxes, interest, and other income. Total expenses and transfers of $193.3 million consisted of $81.9 million for environmental protection, $59.3 million for cultural and recreation, $20.9 for economic development, $18.6 million for government-wide support, $5.5 million for individual rights, and $3.4 million for public safety. Total transfer to others amounted to $3.7 million.

As of June 30, 2017, total assets of $799 million exceeded total liabilities of $34.9 million by $764.1 million. Total assets included cash of $280.3 million, receivables of $4.2 million, and land and net capital assets of $514.5 million. Total liabilities included vouchers and accrued payables of $22.5 million, amount due to the state of $5.9 million, unearned revenues of $5.1 million, and general obligation bonds payable of $1.4 million.

DLNR received an unmodified opinion from the auditors at N&K CPAs, Inc. that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. The auditors identified four material weaknesses that are required to be reported in accordance with *Government Auditing Standards*. The material weaknesses are described on pages 57-62 of the report.

Financial Audit of the Department of Land and Natural Resources Financial Statements, Fiscal Year Ended June 30, 2018

The Department of Land and Natural Resources (DLNR) reported total revenues of $207.3 million, along with $5 million in transfers from other state departments, and total expenses and transfers of $184.5 million, resulting in an increase in net position of $23.8 million. Revenues consisted of: (1) $99 million from state appropriations, net of lapses, (2) $49.8 million from charges for services, (3) $28.8 million from operating grants and contributions, (4) $15.2 million from non-imposed employee fringe benefits, (5) $500,000 from capital grants, and (6) $14 million from taxes, interest, and other income. Total expenses and transfers of $184.5 million consisted of: (1) $78.2 million for environmental protection, (2) $62.1 million for cultural and recreation, (3) $23.6 million for economic development, (4) $10.6 million for government-wide support, (5) $5.2 million for individual rights, and (6) $4.3 million for public safety. Total transfers from other sources amounted to $500,000.

As of June 30, 2018, total assets of $821.4 million exceeded total liabilities of $71.8 million by $749.6 million. DLNR received an unmodified opinion by the auditors at N&K CPAs, Inc. that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. The auditors identified four material weaknesses in internal control over financial reporting that are required to be reported in accordance with *Government Auditing Standards*. The material weaknesses are described on pages 65-70 of the report. The department's corrective action plan can be found at page 73. There were no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Office of the Auditor Appropriations and Expenditures on a Budgetary Basis for the Fiscal Year Ended June 30, 2019

Appropriations

Act 1, SLH 2018 (Operations)	$3,007,127
Act 1, SLH 2018 (Special Studies)	150,000
Act 1, SLH 2018 (Audit Revolving Fund)	2,800,000
Act 1, SLH 2018 (Accrued Vacation Payments)	68,106
Act 1, SLH 2017, First Special Session:	
Audit of Honolulu Authority for Rapid Transportation (HART)	978,475
Act 21, SLH 2017 (Public Employment Cost Items)	126,772
Act 209, SLH 2017	
Audit of Department of Land and Natural Resources (DLNR)	100,000
	$7,230,480

Expenditures

Staff salaries	$2,110,238
Vacation payments	30,455
Contractual Services (operational)	5,501
Other expenses	118,703
Special studies	0
Contractual Services (Audit Revolving Fund)	2,800,000
Contractual Services (DLNR Audit)	100,000
Contractual Services (HART Audit)	591,403
	5,756,300

Excess of Appropriation over Expenditures

Act 1, SLH 2018 (operations)	$772,685
Act 1, SLH 2018 (special studies)	150,000
Act 1, SLH 2018 (Audit Revolving Fund)	0
Act 1, SLH 2018 (Accrued Vacation Payments)	37,651
Act 1, SLH 2017, First Special Session (HART Audit)	387,072
Act 21, SLH 2017 (Public Employee Cost Items)	126,772
Act 209, SLH 2017 (DLNR Audit)	0
	$1,474,180

OFFICE OF THE AUDITOR
STATE OF HAWAIʻI

Constitutional Mandate

Pursuant to Article VII, Section 10 of the Hawaiʻi State Constitution, the Office of the Auditor shall conduct post-audits of the transactions, accounts, programs and performance of all departments, offices and agencies of the State and its political subdivisions.

The Auditor's position was established to help eliminate waste and inefficiency in government, provide the Legislature with a check against the powers of the executive branch, and ensure that public funds are expended according to legislative intent.

Hawaiʻi Revised Statutes, Chapter 23, gives the Auditor broad powers to examine all books, records, files, papers and documents, and financial affairs of every agency. The Auditor also has the authority to summon people to produce records and answer questions under oath.

Our Mission

To improve government through independent and objective analyses.

We provide independent, objective, and meaningful answers to questions about government performance. Our aim is to hold agencies accountable for their policy implementation, program management, and expenditure of public funds.

Our Work

We conduct performance audits (also called management or operations audits), which examine the efficiency and effectiveness of government programs or agencies, as well as financial audits, which attest to the fairness of financial statements of the State and its agencies.

Additionally, we perform procurement audits, sunrise analyses and sunset evaluations of proposed regulatory programs, analyses of proposals to mandate health insurance benefits, analyses of proposed special and revolving funds, analyses of existing special, revolving and trust funds, and special studies requested by the Legislature.

We report our findings and make recommendations to the governor and the Legislature to help them make informed decisions.

For more information on the Office of the Auditor, visit our website:
https://auditor.hawaii.gov

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