

**Department of Human Services
State of Hawaii**

Financial Statements
For the Year Ended June 30, 2021
and
Independent Auditor's Report



A Hawaii Limited Liability Partnership

March 28, 2022

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

Dear Mr. Kondo:

This is our report on the financial audit of the Department of Human Services of the State of Hawaii (DHS) as of and for the fiscal year ended June 30, 2021. Our audit was performed in accordance with the terms of our contract with the state of Hawaii and with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), *Government Auditing Standards*, Audits of States, Local Governments, and Non-Profit Organizations.

OBJECTIVES OF THE AUDIT

The primary purpose of our audit was to form an opinion on the fairness of the presentation of the DHS's basic financial statements as of and for the fiscal year ended June 30, 2021, and to comply with the requirements of the Uniform Guidance. The objectives of the audit were as follows:

1. To provide a basis for an opinion as to whether the financial statements of the DHS are fairly presented in all material respects, in accordance with the U.S. generally accepted accounting principles.
2. To report on the DHS's internal control over financial reporting and compliance with certain provisions of laws, regulations, contracts, and grant agreements, including applicable provisions of the Hawaii Public Procurement Code (Chapter 103D of the Hawaii Revised Statutes) and procurement rules, directives and circulars, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.
3. To provide a basis for an opinion as to whether the DHS has complied with compliance requirements described in the Office of Management and Budget (OMB) Compliance Supplement that could have a direct and material effect on each of its major federal programs, including whether the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.
4. To report on the internal control over compliance of the DHS for the purpose of expressing an opinion on compliance with the requirements of laws, regulations, contracts and grants that could have a direct and material effect on each major federal program in accordance with OMB's Uniform Guidance.

SCOPE OF THE AUDIT

Our audit was performed in accordance with auditing standards generally accepted in the United States of America as prescribed by the American Institute of Certified Public Accountants; Government Auditing Standards, issued by the Comptroller General of the United States; and the provisions of the Uniform Guidance. The scope of our audit included an examination of the transactions and accounting records of the DHS as of and for the fiscal year ended June 30, 2021.

ORGANIZATIONS OF THE REPORT

This report is presented in six parts as follows:

- Part I – Financial Section
- Part II – Report on internal control over financial reporting and compliance
- Part III – Report on compliance with requirements applicable to each major program and internal control over compliance
- Part IV – Schedule of findings and questioned costs
- Part V – Summary of schedule of prior audit findings
- Part VI – Corrective action plan

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

Sincerely,



Wilcox Choy
Partner

Table of Contents

| | <u>Page</u> |
|---|-------------|
| PART I Financial Section | |
| Independent Auditor's Report | 6 |
| Management's Discussion and Analysis | 9 |
| Basic Financial Statements: | |
| Government-wide Financial Statements: | |
| Statement of Net Position | 20 |
| Statement of Activities | 21 |
| Fund Financial Statements: | |
| Balance Sheet – Governmental Funds | 22 |
| Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position | 23 |
| Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds | 24 |
| Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances to the Statement of Activities | 25 |
| Statement of Revenues and Expenditures – Budget and Actual – General Fund | 26 |
| Statement of Revenues and Expenditures – Budget and Actual – Special Revenue Funds | 27 |
| Statement of Fiduciary Net Assets – Fiduciary Funds | 28 |
| Statement of Changes in Fiduciary Net Assets – Fiduciary Funds | 29 |
| Notes to the Financial Statements | 30 |
| Supplementary Information: | |
| Schedule of Expenditures of Federal Awards | 58 |
| Notes to the Schedule of Expenditures of Federal Awards | 61 |

Table of Contents (continued)

| | | |
|-----------------|---|-------------------|
| PART II | Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards | <u>Page</u> 63 |
| PART III | Report on Compliance For Each Major Federal Program and Report on Internal Control Over Compliance Required by Uniform Guidance | 66 |
| PART IV | Schedule of Findings and Questioned Costs | 71 |
| PART V | Summary Schedule of Prior Audit Findings | 109 |
| PART VI | Corrective Action Plan | 120 |

PART I

FINANCIAL SECTION



A Hawaii Limited Liability Partnership

Independent Auditor's Report

Office of the Auditor
State of Hawaii

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Department of Human Services of the State of Hawaii (DHS), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the DHS's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the DHS, as of June 30, 2021, and the respective changes in financial position and the respective budgetary comparison for the General Fund and Special Revenue Funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the DHS are intended to present the financial position, the changes in financial position, and budgetary comparisons, of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Hawaii that is attributable to the transactions of the DHS. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2021, the changes in financial position, and budgetary comparisons, for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 2 to the basic financial statements, in 2021 the DHS adopted Government Accounting Standards Board (GASB) Statement No. 84 (GASB 84), Fiduciary Activities. As a result of adopting this standard, the DHS has restated beginning net position for the fiscal year ended June 30, 2020. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 9 through 19 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the DHS's basic financial statements. The schedule of expenditures of federal awards, as required by the Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2022 on our consideration of the DHS's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of DHS's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the DHS's internal control over financial reporting and compliance.

KMH LLP

KMH LLP

Honolulu, Hawaii
March 28, 2022

Department of Human Services
State of Hawaii
Management's Discussion and Analysis
June 30, 2021

This discussion and analysis of the financial performance of the Department of Human Services (DHS) provides an overview of the financial activities of the DHS for the fiscal year ended June 30, 2021. The intent of this discussion is to allow management to provide an objective and easily readable analysis of the financial activities of the DHS based on currently known facts, decisions, or conditions. Readers are encouraged to consider the information presented here in conjunction with the basic financial statements and other supplementary information.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

The Management's Discussion and Analysis (MD&A) serves as an introduction to the basic financial statements of the DHS. The basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the basic financial statements.

Government-wide Financial Statements

The government-wide financial statements provide a broad overview of the finances of the DHS using the economic resources measurement focus and accrual basis of accounting, in a manner similar to private-sector businesses. It provides both long-term and short-term information about the overall financial status of the DHS.

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

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

Department of Human Services
State of Hawaii
Management's Discussion and Analysis
June 30, 2021

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The DHS uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the DHS are divided between either governmental funds or fiduciary funds. Governmental funds are used to account for most, if not all, of a government entity's tax-supported activities. The fiduciary fund is used to account for custodial funds that are held by a government entity for parties outside of the government entity. The resources of fiduciary funds cannot be used to support the government entity's own programs.

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

Governmental funds - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources and balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government entity's near-term financing requirements. By comparing the governmental fund and government-wide financial statements, readers may better understand the long-term impact of the entity's near-term financing decisions. In order to facilitate a comparison between the governmental fund and government-wide financial statements, a reconciliation between the two is provided following each governmental fund financial statements.

Fiduciary fund - The fiduciary fund of the DHS consists of custodial funds for assets held by the DHS in its role as custodian until the funds are distributed to the individuals, private organizations, or government agencies to which they belong. These activities are excluded from the government-wide financial statements of the DHS because the DHS cannot use these assets to finance its operations.

Notes to the Basic Financial Statements

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

Implementation of GASB Statement No. 84

During the fiscal year 2021, the DHS implemented Governmental Accounting Standards Board Statement No. 84, *Fiduciary Activities*.

Department of Human Services
State of Hawaii
Management's Discussion and Analysis
June 30, 2021

The adoption of Statement No. 84 resulted in the restatement of the DHS's July 1, 2020 governmental activities, governmental funds, and custodial funds to reflect assets and liabilities of nonfiduciary activities from net position and fund balance for governmental activities, custodial funds to governmental funds of \$3.2 million.

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE FINANCIAL STATEMENTS

The following table presents a condensed government-wide statement of net position of the DHS as of June 30, 2021 and 2020.

Condensed Statement of Net Position

| | 2021 | 2020 |
|------------------------------------|-----------------------|-----------------------|
| Current assets | \$ 480,064,324 | \$ 549,422,115 |
| Capital assets, net | 80,074,240 | 68,327,465 |
| Total assets | <u>\$ 560,138,564</u> | <u>\$ 617,749,580</u> |
| Current liabilities | \$ 371,722,486 | \$ 391,005,603 |
| Non-current liabilities | 11,505,230 | 8,880,836 |
| Total liabilities | <u>383,227,716</u> | <u>399,886,439</u> |
| Net position: | | |
| Invested in capital assets | 80,074,240 | 68,327,465 |
| Unrestricted | 96,836,608 | 149,535,676 |
| Total net position | <u>176,910,848</u> | <u>217,863,141</u> |
| Total liabilities and net position | <u>\$ 560,138,564</u> | <u>\$ 617,749,580</u> |

As noted earlier, an analysis of net position over time may be a useful indicator of whether a government entity's financial condition is growing stronger or weakening. During the fiscal year ended June 30, 2021, the combined net position of the DHS decreased by approximately \$40.9 million.

The unrestricted net position of the DHS was approximately \$96.8 million as of June 30, 2021. The largest liabilities as of June 30, 2021, are the federal expenditures incurred but not yet reimbursed by the federal government as of June 30, 2021 and the estimated amount of medical assistance service provided as of June 30, 2021, for which the related claims and capitation fees will be processed and paid subsequent to June 30, 2021. For the unreimbursed federal expenses as of June 30, 2021 of \$187.9 million, the majority is for the medical assistance program, of which \$109.6 million will be received after June 30, 2021. Of the estimated \$100.7 million of medical assistance payable, the State's share of these costs is approximately \$51.2 million. The estimated federal share of these costs to be paid in the future was recorded as intergovernmental revenues in the current fiscal year and is included in the balance due from other governments. In

Department of Human Services
State of Hawaii
Management's Discussion and Analysis
June 30, 2021

addition to the estimated medical assistance payable, the liability for compensated absences totaling approximately \$16.4 million as of June 30, 2021, is not funded by state allotments until the employee uses the earned leave or is paid out upon termination. Therefore, there are no assets currently available to the DHS to pay for these liabilities as of June 30, 2021.

The DHS reported a total of approximately \$80.1 million in net position invested in capital assets as of June 30, 2021. Although the DHS is not the legal owner of the state buildings that are reported as part of its capital assets, the portion of the state facilities used by the DHS are required to be reported as part of its capital assets. The DHS uses these capital assets to provide services; consequently, these assets are not available for future spending and the related annual depreciation expense of the cost of these facilities is included in the statement of activities for the fiscal year ended June 30, 2021.

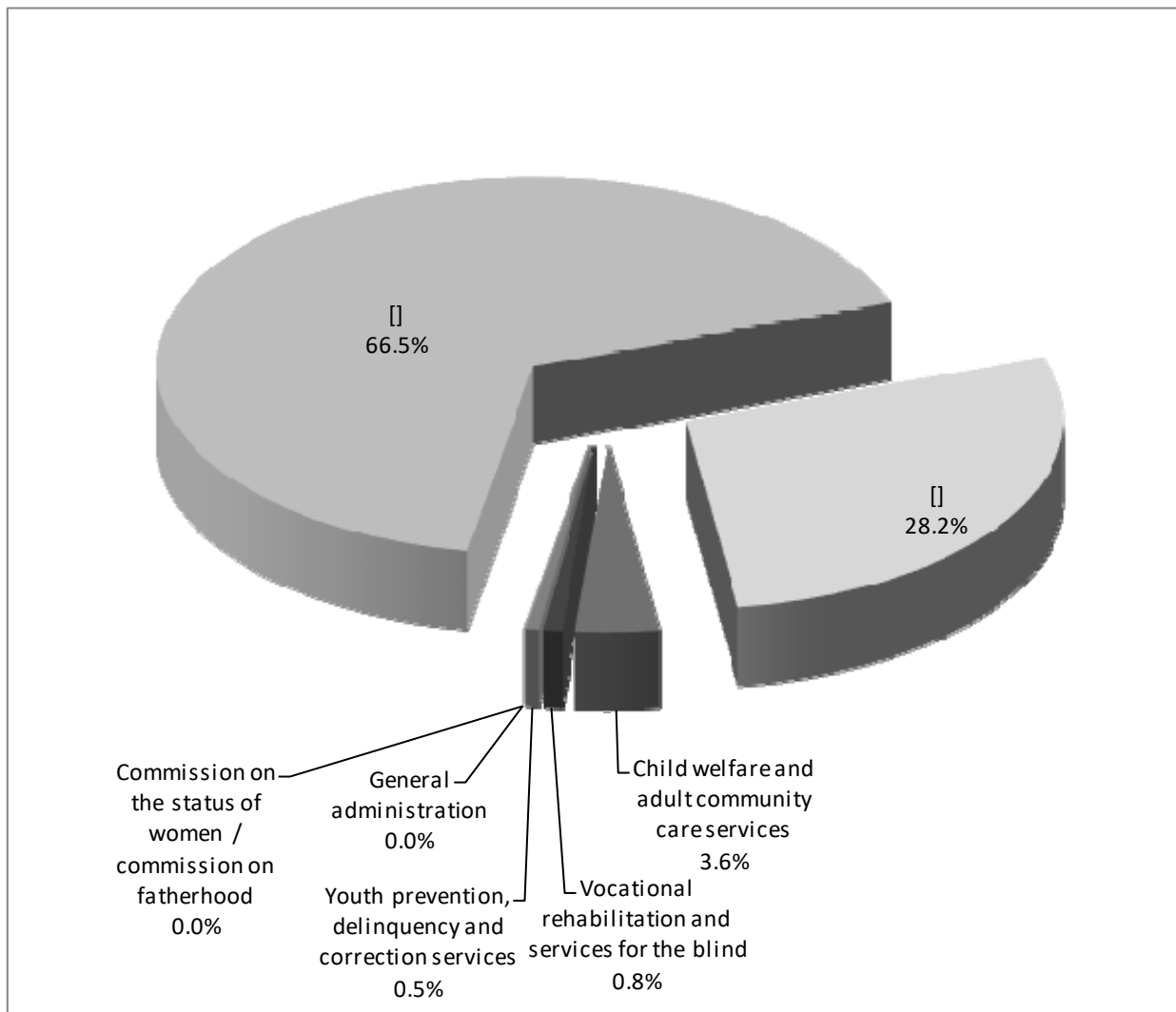
The changes in the net position of the DHS from governmental activities are summarized below. The DHS directs its resources towards assisting people to meet their basic needs for food, shelter, medical care and other essentials for daily living. As such, the DHS does not conduct business-type activities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

Changes in Net Position

| | 2021 | 2020 | Percent Change |
|--|------------------------|------------------------|----------------|
| Revenues: | | | |
| Program revenues | \$ 3,309,232,631 | \$ 2,466,131,750 | 34.2% |
| General revenues | 1,307,413,244 | 1,281,537,659 | 2.0% |
| Total revenues | <u>4,616,645,875</u> | <u>3,747,669,409</u> | 23.2% |
| Expenses: | | | |
| Health care programs | 3,110,185,534 | 2,758,194,511 | 12.8% |
| General welfare assistance, employment and support services | 1,317,823,184 | 786,935,217 | 67.5% |
| Child welfare and adult community care services | 166,410,119 | 186,157,590 | (10.6%) |
| General administration | 37,645,780 | 20,167,077 | 86.7% |
| Vocational rehabilitation and services for the blind | 25,047,972 | 25,236,528 | (0.7%) |
| Youth prevention, delinquency and correction services | 21,712,502 | 23,862,013 | (9.0%) |
| Commission on the status of women/ commission on fatherhood | 221,499 | 244,493 | (9.4%) |
| Total expenses | <u>4,679,046,590</u> | <u>3,800,797,429</u> | 23.1% |
| Change in net position, before transfers | <u>\$ (62,400,715)</u> | <u>\$ (53,128,020)</u> | |

Department of Human Services
State of Hawaii
Management's Discussion and Analysis
June 30, 2021

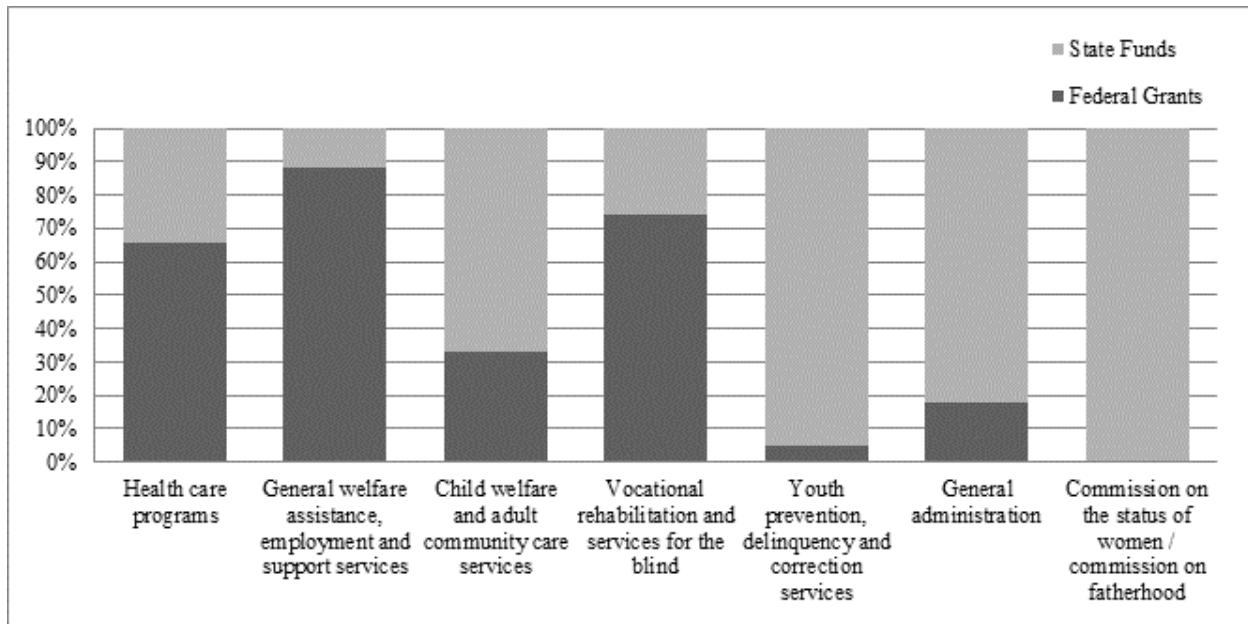
The total cost of all programs and services was approximately \$4.7 billion, a 23.1% increase from the prior fiscal year. Health care and general welfare assistance programs comprised 66.5% and 28.1%, respectively, of the total costs. The following chart presents each major activity as a percent of the total cost of all DHS activities:



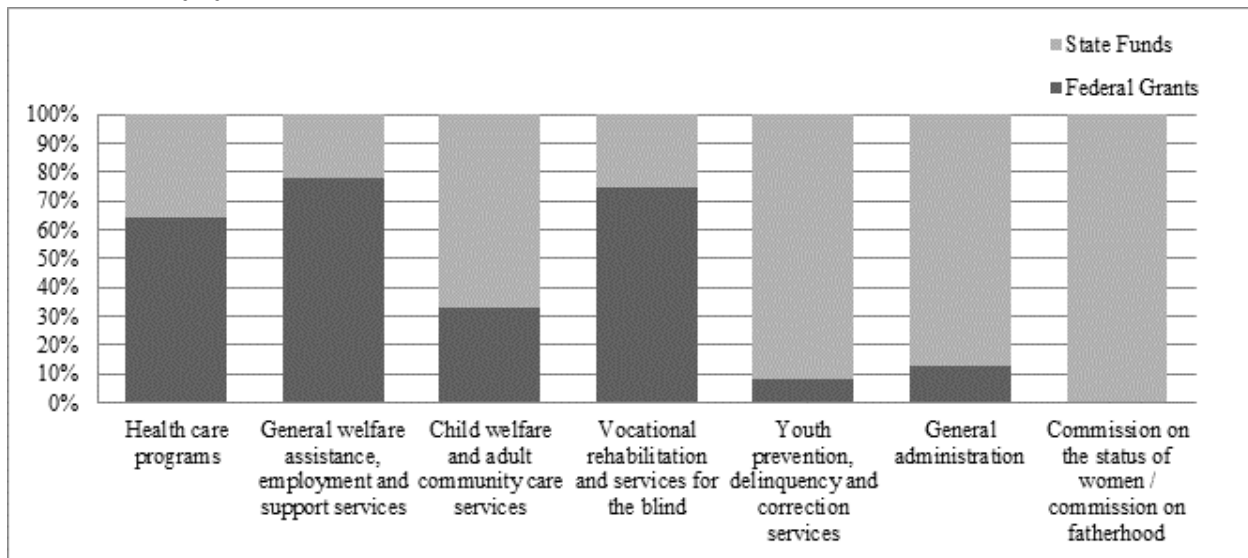
Department of Human Services
State of Hawaii
Management's Discussion and Analysis
June 30, 2021

Program revenues consist primarily of operating grants from the federal government. Revenues from these federal grants paid for 70.7% and 64.9% of the cost of all the DHS's activities for the fiscal year ended June 30, 2021 and 2020, respectively. The following chart presents the percentage of costs funded by federal grants for each major activity of the DHS for the fiscal years ended June 30, 2021 and 2020:

Fiscal Year 2021



Fiscal Year 2020



Department of Human Services
State of Hawaii
Management's Discussion and Analysis
June 30, 2021

FINANCIAL ANALYSIS OF THE FUND FINANCIAL STATEMENTS

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

Total expenditures reported on an accrual basis increased by \$1.0 billion or 27.4% over the prior fiscal year. This increase is primarily related to an increase in expenditures for the health care programs and general welfare assistance, employment and support services.

At June 30, 2021, the total governmental fund balance of the DHS consisted of committed and assigned fund balance of approximately \$7.8 million, and \$105.4 million, respectively. The committed fund balance of the special revenue funds totaling \$7.8 million is principally the result of amounts that are limited by the state law for specific use.

The following table presents total revenues and expenditures of the governmental funds of the DHS for the fiscal years ended June 30, 2021 and 2020:

| | 2021 | 2020 | Percent Change |
|--------------------------------------|-------------------------|-------------------------|----------------|
| Revenues: | | | |
| State-allotted appropriations | \$ 1,275,950,249 | \$ 1,244,938,188 | 2.5% |
| Intergovernmental revenues | 3,309,232,631 | 2,466,131,750 | 34.2% |
| Non-imposed employee fringe benefits | 31,462,995 | 36,599,471 | (14.0%) |
| Total revenues | <u>\$ 4,616,645,875</u> | <u>\$ 3,747,669,409</u> | 23.2% |

Department of Human Services
State of Hawaii
Management's Discussion and Analysis
June 30, 2021

| | 2021 | 2020 | Percent Change |
|--|-------------------------|-------------------------|----------------|
| Expenditures: | | | |
| Health care programs | \$ 3,107,771,495 | \$ 2,751,256,398 | 13.0% |
| General welfare assistance, employment and support services | 1,332,760,173 | 785,595,937 | 69.6% |
| Child welfare and adult community care services | 165,221,728 | 185,506,044 | (10.9%) |
| General administration | 37,228,257 | 20,066,896 | 85.5% |
| Vocational rehabilitation and services for the blind | 24,347,259 | 25,872,012 | (5.9%) |
| Youth prevention, delinquency and correction services | 20,764,719 | 22,927,992 | (9.4%) |
| Commission on the status of women/ commission on fatherhood | 211,340 | 226,998 | (6.9%) |
| Total expenditures | <u>\$ 4,688,304,971</u> | <u>\$ 3,791,452,277</u> | 23.7% |

BUDGETARY ANALYSIS

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

| | Original Budget | Final Budget | Actual on Budgetary Basis | Variance Favorable (Unfavorable) |
|---|-------------------------|-------------------------|------------------------------|--|
| Health care programs | \$ 1,114,871,606 | \$ 1,113,756,417 | \$ 1,027,932,019 | \$ 85,824,398 |
| General welfare assistance, employment and support services | 175,420,369 | 163,015,704 | 160,959,780 | 2,055,924 |
| Child welfare and adult community care services | 108,335,743 | 108,385,024 | 107,098,002 | 1,287,022 |
| Youth prevention, delinquency and correction services | 17,683,610 | 16,985,615 | 16,031,527 | 954,088 |
| General administration | 10,039,148 | 10,754,071 | 13,019,629 | (2,265,558) |
| Vocational rehabilitation and services for the blind | 5,632,982 | 5,266,173 | 3,811,078 | 1,455,095 |
| Commission on the status of women / commission on fatherhood | 174,035 | 161,707 | 161,707 | - |
| | <u>\$ 1,432,157,493</u> | <u>\$ 1,418,324,711</u> | <u>\$ 1,329,013,742</u> | <u>\$ 89,310,969</u> |

The major differences between the original and final budget for the individual programs is mainly due to the transfer of funds from the Homeless Program to the Department of Transportation.

Department of Human Services
State of Hawaii
Management's Discussion and Analysis
June 30, 2021

The majority of the savings for the health care programs were due to the increase in federal participation percentage. Because the additional sources of funding, the program did not utilize all the budgeted funds. The amounts expended in comparison to the amount budgeted appears favorable.

CAPITAL ASSETS

As of June 30, 2021 and 2020, the cost basis of capital assets, net of accumulated depreciation, used by the DHS are presented in the table below. Approximately \$22.6 million of capital assets were added in the fiscal year ended June 30, 2021. The major increase in capital assets is due to the recording of capitalized software costs and buildings occupied by the department. Annual depreciation totaling approximately \$10.9 million decreased the net cost basis during the fiscal year ended June 30, 2021.

Capital Assets, Net of Depreciation

| | 2021 | 2020 |
|--|----------------------|----------------------|
| Depreciable Assets: | | |
| State office buildings and improvements | \$ 30,581,291 | \$ 31,215,810 |
| Building and improvements for the Office of Youth Services | 11,475,141 | 11,413,450 |
| Intangible assets - software | 22,564,549 | 24,252,075 |
| Total buildings and improvements | 64,620,981 | 66,881,335 |
| Furniture, equipment and vehicles | 1,161,296 | 1,446,129 |
| Non-depreciable Assets: | | |
| Software under development | 14,291,962 | - |
| Land | 1 | 1 |
| Total | <u>\$ 80,074,240</u> | <u>\$ 68,327,465</u> |

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

ECONOMIC FACTORS (Fiscal Year 2021)

Average monthly financial assistance caseload increased by 29% from state fiscal year 2020 to 2021, from 10,905 to 14,111 cases. Last year experienced a 4% increase.

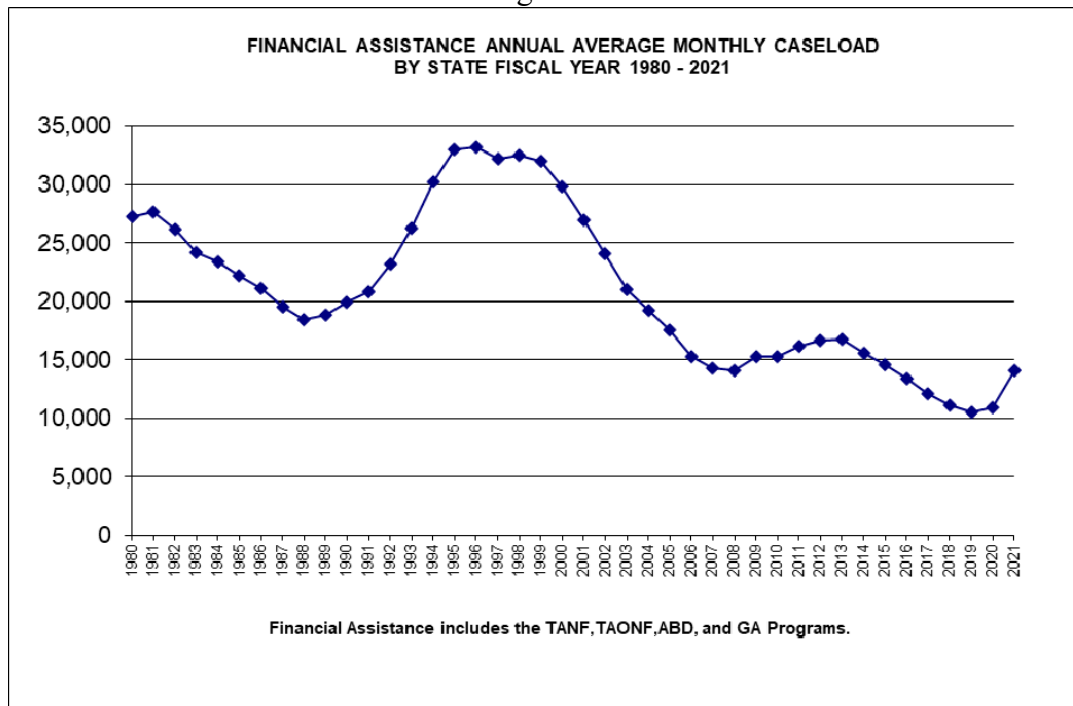
Department of Human Services
State of Hawaii
Management's Discussion and Analysis
June 30, 2021

Average monthly number of individuals in Hawaii receiving financial assistance increased by 47% from state fiscal year 2020 to 2021, from 19,341 to 28,442 individuals. Last year experienced a 6% increase.

The average monthly number of individuals in Hawaii receiving Supplemental Nutrition Assistance Program (SNAP), formerly known as Food Stamp Program, increased by 19%, from 159,734 to 190,791 individuals. Last year experienced a 1% increase.

Over the past fiscal year, the number of individuals receiving SNAP benefits and financial assistance in Hawaii continued to rise due to the COVID-19 pandemic and its effect on the economy. Changes in policy at the national level in response to the COVID-19 pandemic resulted in more individuals eligible for SNAP benefits for the year. By the end of state fiscal 2021, case counts had begun falling in a number of financial assistance programs as the state began to show modest recovery from the pandemic-imposed hardship.

Figure 1.



Department of Human Services
State of Hawaii
Management's Discussion and Analysis
June 30, 2021

Figure 2.

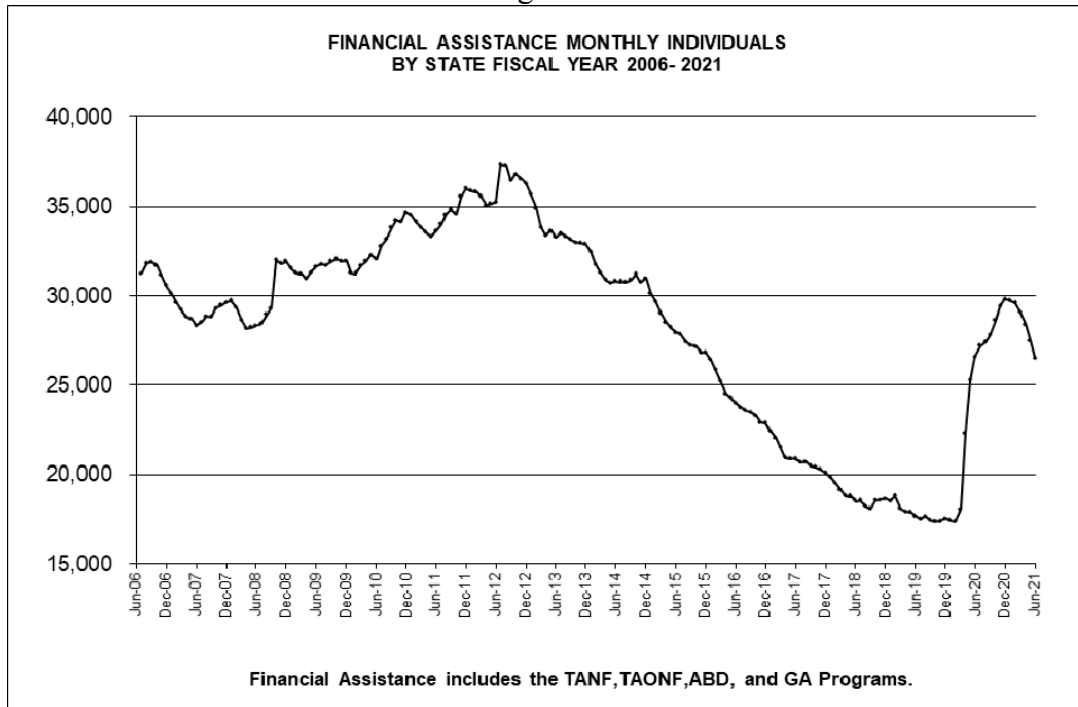
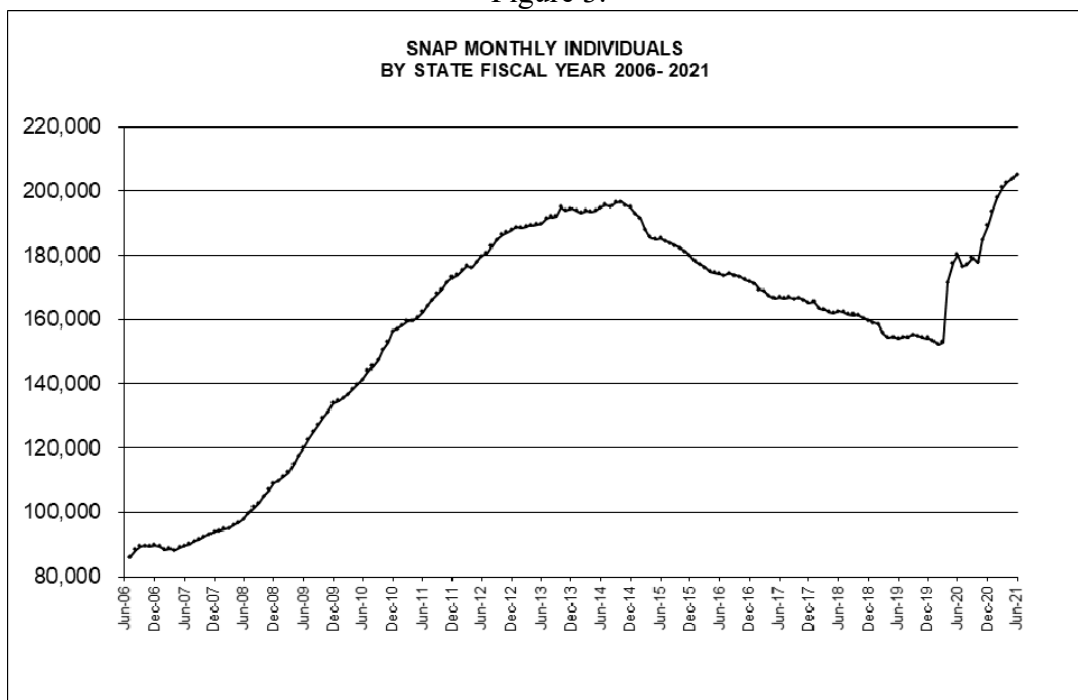


Figure 3.



Department of Human Services
State of Hawaii
Statement of Net Position
June 30, 2021

ASSETS:

| | |
|---|------------------------------|
| Cash and cash equivalents | \$ 256,519,352 |
| Receivables, net | 86,575,584 |
| Due from other governments | <u>136,969,388</u> |
| Total current assets | 480,064,324 |
| Capital assets, net of accumulated depreciation | <u>80,074,240</u> |
| Total assets | <u><u>\$ 560,138,564</u></u> |

LIABILITIES:

| | |
|--|--------------------|
| Vouchers payable | \$ 28,112,890 |
| Accrued wages and employee benefits payable | 20,002,828 |
| Due to State General Fund | 218,094,504 |
| Accrued medical assistance payable | 100,660,264 |
| Accrued compensated absences | <u>4,852,000</u> |
| Total current liabilities | 371,722,486 |
| Accrued compensated absences, less current portion | <u>11,505,230</u> |
| Total liabilities | <u>383,227,716</u> |

NET POSITION:

| | |
|------------------------------------|------------------------------|
| Net investment in capital assets | 80,074,240 |
| Unrestricted | <u>96,836,608</u> |
| Total net position | <u>176,910,848</u> |
| Total liabilities and net position | <u><u>\$ 560,138,564</u></u> |

See accompanying notes to the basic financial statements.

Department of Human Services
State of Hawaii
Statement of Activities
for the year ended June 30, 2021

| Functions/Programs | Expenses | Program Revenues | | Net Expense and Changes in Net Position |
|--|-------------------------|-------------------------|--|---|
| | | Charges for Services | Operating Grants and Contributions | |
| Governmental Activities: | | | | |
| Health care programs | \$ 3,110,185,534 | \$ - | 2,066,708,847 | \$ (1,043,476,687) |
| General welfare assistance, employment and support services | 1,317,823,184 | - | 1,161,523,361 | (156,299,823) |
| Child welfare and adult community care services | 166,410,119 | - | 54,416,506 | (111,993,613) |
| General administration | 37,645,780 | - | 6,922,707 | (30,723,073) |
| Vocational rehabilitation and services for the blind | 25,047,972 | - | 18,538,606 | (6,509,366) |
| Youth prevention, delinquency and correction services | 21,712,502 | - | 1,122,604 | (20,589,898) |
| Commission on the status of women / commission on fatherhood | 221,499 | - | - | (221,499) |
| Total governmental activities | <u>\$ 4,679,046,590</u> | <u>\$ -</u> | <u>\$ 3,309,232,631</u> | <u>(1,369,813,959)</u> |
| General Revenues: | | | | |
| State allotments, net of lapsed appropriations | | | | 1,275,950,249 |
| Nonimposed employee fringe benefits | | | | <u>31,462,995</u> |
| Total general revenues | | | | <u>1,307,413,244</u> |
| Transfers | | | | <u>18,240,632</u> |
| Change in net position | | | | <u>(44,160,083)</u> |
| Net position at June 30, 2020, as previously reported | | | | 217,863,141 |
| Adjustment for change in accounting principle | | | | <u>3,207,790</u> |
| Net position at June 30, 2020, as restated | | | | <u>221,070,931</u> |
| Net position at June 30, 2021 | | | | <u>\$ 176,910,848</u> |

See accompanying notes to the basic financial statements.

Department of Human Services
State of Hawaii
Balance Sheet – Governmental Funds
June 30, 2021

| | General | Med-QUEST Special Revenue Fund | Human Services Special Revenue Fund | Total |
|--|-----------------------|--------------------------------------|---|-----------------------|
| ASSETS: | | | | |
| Cash and cash equivalents | \$ 161,955,702 | \$ 32,382,412 | \$ 62,181,238 | \$ 256,519,352 |
| Receivables, net | 16,952,755 | 68,328,072 | 1,294,757 | 86,575,584 |
| Due from other funds | 215,939,354 | - | - | 215,939,354 |
| Due from other governments | - | 89,346,723 | 47,622,665 | 136,969,388 |
| Total assets | <u>\$ 394,847,811</u> | <u>\$ 190,057,207</u> | <u>\$ 111,098,660</u> | <u>\$ 696,003,678</u> |
| LIABILITIES AND FUND BALANCES | | | | |
| LIABILITIES: | | | | |
| Vouchers payable | \$ 13,248,099 | \$ - | \$ 14,864,791 | \$ 28,112,890 |
| Accrued wages and employee benefits payable | 6,925,079 | 1,360,651 | 11,717,098 | 20,002,828 |
| Due to other funds | - | 137,760,761 | 78,178,593 | 215,939,354 |
| Due to State general fund | 218,094,504 | - | - | 218,094,504 |
| Accrued medical assistance payable | 51,162,469 | 49,497,795 | - | 100,660,264 |
| Total liabilities | <u>289,430,151</u> | <u>188,619,207</u> | <u>104,760,482</u> | <u>582,809,840</u> |
| FUND BALANCES: | | | | |
| Committed | - | 1,438,000 | 6,338,178 | 7,776,178 |
| Assigned | 105,417,660 | - | - | 105,417,660 |
| Total fund balances | <u>105,417,660</u> | <u>1,438,000</u> | <u>6,338,178</u> | <u>113,193,838</u> |
| Total liabilities and fund balances | <u>\$ 394,847,811</u> | <u>\$ 190,057,207</u> | <u>\$ 111,098,660</u> | <u>\$ 696,003,678</u> |

See accompanying notes to the basic financial statements.

Department of Human Services
State of Hawaii
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2021

| | |
|--|----------------|
| Total fund balances - governmental funds | \$ 113,193,838 |
|--|----------------|

Amounts reported for governmental activities in the statement
of net position are different because:

- (1) Capital assets used in governmental activities are not financial resources and,
therefore, are not reported in the governmental funds. These assets consist of:

| | | |
|--|----------------------|------------|
| Governmental capital assets | 299,695,008 | |
| Less accumulated depreciation and amortization | <u>(219,620,768)</u> | |
| | | 80,074,240 |

- | | |
|---|---------------------|
| (2) Accrued compensated absences are not due in the current period and, therefore, are not reported in the governmental funds. | <u>(16,357,230)</u> |
|---|---------------------|

| | |
|---|------------------------------|
| Net position of governmental activities | <u><u>\$ 176,910,848</u></u> |
|---|------------------------------|

See accompanying notes to the basic financial statements.

Department of Human Services
State of Hawaii
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds
for the year ended June 30, 2021

| | General | Med-QUEST Special Revenue Fund | Human Services Special Revenue Fund | Total |
|---|------------------|--------------------------------------|--|------------------|
| Revenues: | | | | |
| State-allotted appropriations | \$ 1,275,950,249 | \$ - | \$ - | \$ 1,275,950,249 |
| Intergovernmental | - | 2,066,708,847 | 1,242,523,784 | 3,309,232,631 |
| Nonimposed employee fringe benefits | 31,462,995 | - | - | 31,462,995 |
| Total revenues | 1,307,413,244 | 2,066,708,847 | 1,242,523,784 | 4,616,645,875 |
| Expenditures: | | | | |
| Health care programs | 1,040,628,701 | 2,067,142,794 | - | 3,107,771,495 |
| General welfare assistance employment and support services | 72,444,087 | - | 1,260,316,086 | 1,332,760,173 |
| Child welfare and adult community care services | 110,560,424 | - | 54,661,304 | 165,221,728 |
| General administration | 25,522,988 | - | 11,705,269 | 37,228,257 |
| Vocational rehabilitation and services for the blind | 5,818,779 | - | 18,528,480 | 24,347,259 |
| Youth prevention, delinquency and correction services | 19,755,713 | - | 1,009,006 | 20,764,719 |
| Commission on the status of women / commission on fatherhood | 211,340 | - | - | 211,340 |
| Total expenditures | 1,274,942,032 | 2,067,142,794 | 1,346,220,145 | 4,688,304,971 |
| Excess (deficiency) of revenues over (under) expenditures | 32,471,212 | (433,947) | (103,696,361) | (71,659,096) |
| Other financing sources (uses) - Transfers in (out) | (86,825,851) | 433,947 | 104,632,536 | 18,240,632 |
| Net change in fund balances | (54,354,639) | - | 936,175 | (53,418,464) |
| Fund balances at July 1, 2020, as previously reported | 159,772,299 | - | 3,632,213 | 163,404,512 |
| Adjustment for change in accounting principle | - | 1,438,000 | 1,769,790 | 3,207,790 |
| Fund balances at July 1, 2020, as restated | 159,772,299 | 1,438,000 | 5,402,003 | 166,612,302 |
| Fund balances at June 30, 2021 | \$ 105,417,660 | \$ 1,438,000 | \$ 6,338,178 | \$ 113,193,838 |

See accompanying notes to the basic financial statements.

Department of Human Services
State of Hawaii
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the
Statement of Activities
for the year ended June 30, 2021

Net change in fund balances - total governmental funds \$ (53,418,464)

Amounts reported for governmental activities in the statement of activities
are different because:

- (1) Governmental funds report capital outlays as expenditures, however, in the statement of activities, the cost of those assets are depreciated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays less dispositions and others exceeded depreciation during the year. 11,746,775
- (2) Change in long-term compensated absences reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (2,488,394)

Change in net position - governmental activities \$ (44,160,083)

See accompanying notes to the basic financial statements.

Department of Human Services
State of Hawaii
General Fund – Statement of Revenues and Expenditures – Budget and Actual
for the year ended June 30, 2021

| | <u>Original</u> | <u>Final</u> | <u>Actual on Budgetary Basis</u> | <u>Variance Favorable (Unfavorable)</u> |
|---|----------------------|----------------------|--------------------------------------|---|
| REVENUES: | | | | |
| State allotments | \$ 1,432,157,493 | \$ 1,418,324,711 | \$ 1,393,244,944 | \$ (25,079,767) |
| EXPENDITURES: | | | | |
| Health care programs | 1,114,871,606 | 1,113,756,417 | 1,027,932,019 | 85,824,398 |
| General welfare assistance, employment and support services | 175,420,369 | 163,015,704 | 160,959,780 | 2,055,924 |
| Child welfare and adult community care services | 108,335,743 | 108,385,024 | 107,098,002 | 1,287,022 |
| Youth prevention, delinquency and correction services | 17,683,610 | 16,985,615 | 16,031,527 | 954,088 |
| General administration | 10,039,148 | 10,754,071 | 13,019,629 | (2,265,558) |
| Vocational rehabilitation and services for the blind | 5,632,982 | 5,266,173 | 3,811,078 | 1,455,095 |
| Commission on the status of women / commission on fatherhood | 174,035 | 161,707 | 161,707 | - |
| | <u>1,432,157,493</u> | <u>1,418,324,711</u> | <u>1,329,013,742</u> | <u>89,310,969</u> |
| EXCESS OF REVENUES OVER EXPENDITURES | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 64,231,202</u> | <u>\$ 64,231,202</u> |

See accompanying notes to the basic financial statements.

Department of Human Services
State of Hawaii
Special Revenue Funds – Statement of Revenues and Expenditures – Budget and Actual
for the year ended June 30, 2021

| | | | <u>Actual on Budgetary Basis</u> | | |
|--|----------------------|----------------------|---|--|---|
| | <u>Original</u> | <u>Final</u> | <u>Med-QUEST Special Revenue Fund</u> | <u>Human Services Special Revenue Fund</u> | <u>Variance Favorable (Unfavorable)</u> |
| REVENUES: | | | | | |
| Intergovernmental Revenues: | | | | | |
| Med-QUEST | \$ 2,057,934,891 | \$ 2,057,982,804 | \$ 2,062,196,292 | \$ - | \$ 4,213,488 |
| Human services | 353,730,042 | 353,730,042 | - | 389,205,516 | 35,475,474 |
| | <u>2,411,664,933</u> | <u>2,411,712,846</u> | <u>2,062,196,292</u> | <u>389,205,516</u> | <u>39,688,962</u> |
| EXPENDITURES: | | | | | |
| Health care programs | 2,057,934,891 | 2,057,982,804 | 2,056,546,070 | - | 1,436,734 |
| General welfare assistance, employment and support services | 250,166,611 | 250,166,611 | - | 320,303,607 | (70,136,996) |
| Child welfare and adult community care services | 68,390,745 | 68,390,745 | - | 51,342,308 | 17,048,437 |
| Vocational rehabilitation and services for the blind | 25,262,516 | 25,262,516 | - | 19,466,558 | 5,795,958 |
| Youth prevention, delinquency and correction services | 786,646 | 786,646 | - | 948,386 | (161,740) |
| General administration | 9,123,524 | 9,123,524 | - | 10,558,045 | (1,434,521) |
| | <u>2,411,664,933</u> | <u>2,411,712,846</u> | <u>2,056,546,070</u> | <u>402,618,904</u> | <u>(47,452,128)</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 5,650,222</u> | <u>\$ (13,413,388)</u> | <u>\$ (7,763,166)</u> |

See accompanying notes to the basic financial statements.

Department of Human Services
State of Hawaii
Fiduciary Fund – Statement of Fiduciary Net Assets
June 30, 2021

| | <u>Custodial Funds</u> |
|---------------------|-------------------------------|
| ASSETS: | |
| Cash | \$ 607,824 |
| Total assets | <u>\$ 607,824</u> |
| LIABILITIES: | |
| Due to individuals | \$ 597,218 |
| Due to others | <u>10,606</u> |
| Total liabilities | <u>\$ 607,824</u> |

See accompanying notes to the basic financial statements.

Department of Human Services
State of Hawaii
Fiduciary Fund – Statement of Changes in Fiduciary Net Assets
for the year ended June 30, 2021

| | <u>Custodial Funds</u> |
|---|-------------------------------|
| Additions: | |
| Custodial collections | <u>\$ 268,712</u> |
| Total additions | <u>268,712</u> |
| Deductions: | |
| Custodial disbursements | <u>325,960</u> |
| Total deductions | <u>325,960</u> |
| Net decrease in fiduciary net position | (57,248) |
| Net position: | |
| Beginning of year, as previously reported | - |
| Adjustment for change in accounting principle | <u>57,248</u> |
| Beginning of year, restated | <u>57,248</u> |
| End of year | <u><u>\$ -</u></u> |

See accompanying notes to the basic financial statements.

Department of Human Services
State of Hawaii
Notes to the Financial Statements
June 30, 2021

1. Financial Reporting Entity

The Hawaii State Government Reorganization Act of 1959 (Act 1, Second Special Session Laws of Hawaii 1959) created the Department of Social Services and Housing. In 1987, the name was changed to the Department of Human Services (DHS). The DHS's mission is to direct its resources towards protecting and helping those least able to care for themselves and to provide services designed toward achieving self-sufficiency for clients as quickly as possible. The DHS is committed to maintaining a high level of quality, efficiency, and effectiveness in its services.

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

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

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

General Welfare Assistance, Employment and Support Services: The Benefit, Employment and Support Services division provides monthly benefits to assist eligible clients with such essentials as food, clothing, shelter, emergency assistance, child care, and work support, as well as employment and training to help families attain self-sufficiency. Cash benefits are provided to individuals and families through the Temporary Assistance to Needy Families, Temporary Assistance to Other Needy Families, General Assistance, and Assistance to the Aged, Blind, and Disabled programs, as well as the Low Income Home Energy Program and Child Care Connection Hawaii. The Supplemental Nutrition Assistance Program (SNAP) - formerly known as the Food Stamp Program helps to ensure that no one goes hungry. The First-To-Work, Employment and Training programs provide job readiness, job development, job placement, case management, and other supportive services to ensure that families on public welfare are adequately prepared to end dependency, as well as providing a variety

Department of Human Services
State of Hawaii
Notes to the Financial Statements
June 30, 2021

of at-risk youth and family strengthening programs to prevent family dependence. In 2011, the state homeless programs previously administered by the Hawaii Housing Authority, was transferred to the division. The division's operations are reported in the general, special revenue, and agency funds.

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

Vocational Rehabilitation and Services for the Blind: The Vocational Rehabilitation and Services for the Blind Division administers programs that provide rehabilitation services to assist eligible persons with disabilities to secure employment and to lead full and independent lives. The Vocational Rehabilitation (VR) program offers vocational evaluation, planning, counseling, treatment, training, job placement, and follow-up services to persons with physical or mental disabilities to enable them to be employed. The economic benefits of the VR programs include increased earnings and purchasing power, increased tax revenues, and decreased dependency on public assistance. The Services to the Blind program, called Ho'opono, enables visually impaired adults to attain maximum vocational functional independence by providing varied services including vocational, counseling, assistive technology, and social and independent living skills training. Persons with visual impairment are also assisted in establishing and operating vending facilities. The Disability Determination program determines eligibility for Social Security Disability Insurance and Supplemental Security Income benefits under the federal Social Security Program. The division's operations are reported in the general, special revenue, and agency funds.

Department of Human Services
State of Hawaii
Notes to the Financial Statements
June 30, 2021

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

General Administration: General administration includes the six staff offices that support the DHS administration, operating divisions, and attached agencies. The Administrative Appeals Office (AAO) provides administrative due process hearings for three departmental divisions - Benefit, Employment and Support Services; Med-QUEST; and Social Services. The AAO also serves as the rules coordinator for the DHS and reviews administrative proceedings for the adoption, modification, or repeal of departmental rules. AAO is also responsible for establishing a mediation process for the DHS. The Fiscal Management Office (FMO) provides staff assistance and advisory services for the administrative functions of fiscal management and housekeeping services. FMO formulates policies and procedures and administers the DHS's central accounting, funds management, client and vendor payment, employee payroll, inventory management, contracting, purchasing, records management, office space allocation, and central mail distribution function. The Audit, Quality Control, and Research Office (AQCRO) conducts audits, research studies, and reviews of the DHS's internal control systems and financial operations to safeguard the DHS's assets. The AQCRO serves to ensure the DHS's compliance with federal laws and regulations in monitoring the use of federal funds for services and benefits to clients. The Budget, Planning, and Management Office (BPMO) conducts studies, analyses, management evaluations, and reviews of departmental programs and operations to ascertain statutory and/or regulatory compliance, appropriate budgetary levels, and achievement of stated goals and objective. Office of Information Technology (OIT) is responsible for the overall administration, planning, direction, management, development, implementation, and maintenance of all information technology and information systems processing for the DHS statewide. The Personnel Office oversees the personnel programs of the DHS, including recruitment, examination, placement, position description, classification and pricing analysis, labor relations, civil rights, employee safety and relations, employee training and development,

Department of Human Services
State of Hawaii
Notes to the Financial Statements
June 30, 2021

personnel transactions, and maintenance of personnel records. Those operations are reported in the general and special revenue funds.

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

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

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

2.

3. Significant Accounting Policies

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

a. Basis of Presentation

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

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to customers who

Department of Human Services
State of Hawaii
Notes to the Financial Statements
June 30, 2021

purchase, use, or directly benefit from goods or services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. State allotments and other items properly excluded from program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than program revenues.

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

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

The financial activities of the DHS that are reported in the accompanying fund financial statements have been classified into the following major governmental funds:

Governmental Fund Types

The DHS reports the following major governmental funds:

General Fund

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

Special Revenue Funds

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

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

Department of Human Services
State of Hawaii
Notes to the Financial Statements
June 30, 2021

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

In addition, a description of the DHS's fiduciary fund is as follows:

Fiduciary Fund Type

Custodial Funds

Custodial funds account for various assets held by the DHS pending distributions to individuals, private organizations, other governmental agencies or other funds.

b. Measurement Focus and Basis of Accounting

Government-wide Financial Statements - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental Funds Financial Statements - The governmental funds financial statements are reported using the current financial resources management focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the DHS considers revenues other than federal grants and assistance awards to be available if they are collected within 60 days of the end of the current fiscal year. Revenues susceptible to accrual include federal grants and funds appropriated by the State Legislature and allotted by the Governor. Expenditures are generally recorded when the related fund liabilities are incurred.

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

Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgements, are recorded only when payment is due.

Department of Human Services
State of Hawaii
Notes to the Financial Statements
June 30, 2021

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

Fiduciary Fund – The financial statements of the fiduciary fund are reported using the economic resources measurement focus and the accrual basis of accounting.

c. Use of Estimates

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

d. Receivables

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

e. Capital Assets

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

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

Department of Human Services
State of Hawaii
Notes to the Financial Statements
June 30, 2021

The State has adopted the following capitalization policy:

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

f. Compensated Absences

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

g. Due to Individuals

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

h. Appropriations

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

i. Operating Grants and Contributions

Federal Grants and assistance awards are recorded as due from other governments and intergovernmental revenues when all eligibility requirements have been satisfied.

Department of Human Services
State of Hawaii
Notes to the Financial Statements
June 30, 2021

j. Intrafund and Interfund Transactions

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

k. Fund Balances

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

The DHS reports the following classifications:

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

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

Assigned Fund Balance - Assigned fund balances are amounts that are constrained by the State's intent to be used for specific purposes, but are neither restricted nor committed. The State Legislature authorizes the amounts to specific purposes through the budgetary process. Assigned amounts within general fund include non-liquidated encumbrances at year end that are carried forward to the next fiscal year.

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

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

l. Net Position

Net position is restricted when constraints placed on them are either externally imposed or imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net position. When both

Department of Human Services
State of Hawaii
Notes to the Financial Statements
June 30, 2021

restricted and unrestricted resources are available for use, it is generally the DHS's policy to use restricted resources first, then unrestricted resources as they are needed.

m. Risk Management

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

n. Deferred Compensation Plan

The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all state employees, permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All plan assets are held in a trust fund to protect them from claims of general creditors. The State has no responsibility for loss due to the investment or failure of investment of funds and assets in the plan but does have the duty of due care that would be required of an ordinary prudent investor. Accordingly, the assets and liabilities of the State's deferred compensation plan are not reported in the State's or the DHS's basic financial statements.

o. Recent Accounting Pronouncements

During fiscal year 2021, the DHS implemented GASB Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. Certain assets and liabilities previously reported as part of the agency fund classification of the statement of fiduciary net position are now reported on the governmental fund balance sheet.

The adoption of Statement No. 84 resulted in the restatement of the DHS's July 1, 2020 governmental activities and governmental funds of \$3,207,790, and custodial funds of \$57,248 to reflect assets and liabilities of nonfiduciary activities from net position and fund balance for governmental activities, custodial funds to governmental funds of \$3,207,790.

The GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and

Department of Human Services
State of Hawaii
Notes to the Financial Statements
June 30, 2021

financial reporting for leases by governments. The Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows or outflows of resources based on the provisions of the contract. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020, postponed by GASB Statement No. 95 for 18 months. The DHS has not yet determined the effect this Statement will have on its financial statements.

During the fiscal year 2021, the DHS implemented, GASB Statement No. 90, *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improve the relevance of financial statement information for certain component units. This Statement did not have a material effect on DHS's financial statements.

The GASB issued Statement No. 92, *Omnibus 2021*. The primary objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The requirements of this Statement are effective at multiple periods depending on when certain Statements are implemented, postponed by GASB Statement No. 95 for one year. The DHS has not determined the effect this Statement will have on its financial statements.

The GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. The primary objective of this Statement is to address accounting and financial reporting implications that result from the replacement of an interbank offered rate. The removal of London Interbank Offered Rate as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2020, postponed by GASB Statement No. 95 for one year. The DHS has not determined the effect this Statement will have on its financial statements.

The GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2022. The DHS has not determined the effect this Statement will have on its financial statements.

The GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial

Department of Human Services
State of Hawaii
Notes to the Financial Statements
June 30, 2021

reporting for subscription-based information technology arrangements for government end users. The requirements of this Statement are effective for reporting periods beginning after June 15, 2022. The DHS has not determined the effect this Statement will have on its financial statements.

The GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. The main objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution OPEB (other postemployment benefits) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency and comparability of the accounting and financial reporting for Internal Revenue Code Section 457 deferred compensation plans that meet the definition of a pension plan and for benefits provided through those plans. Certain requirements of this Statement are effective immediately while other requirements, like reporting for section 457 plans are effective for fiscal years beginning after June 15, 2021. The DHS has not determined the effect this Statement will have on its financial statements.

3. Budgeting and Budgetary Control

Revenue estimates are provided to the State Legislature at the time of budget consideration and are revised and updated periodically during the fiscal year. Amounts reflected as budgeted revenues in the statement of revenues and expenditures - budget and actual (budgetary basis) - are those estimates as compiled by the Council on Revenues and the Director of Finance. Budgeted expenditures are derived primarily from Act 5, Session Laws of Hawaii (SLH) 2019, and from other authorizations contained in the State Constitution, Hawaii Revised Statutes, and other specific appropriation acts in various Session Laws of Hawaii.

All expenditures of these appropriated funds are made pursuant to the appropriations in the fiscal 2019 - 2021 biennial budget. The general and special revenue funds have legally appropriated annual budgets.

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

Department of Human Services
State of Hawaii
Notes to the Financial Statements
June 30, 2021

The legal level of budgetary control is maintained at the appropriation line item level by department, program, and source of funds as established in the appropriations act. The Governor is authorized to transfer appropriations between programs within the same department and source of funds; however, transfers of appropriations between departments generally require legislative authorization. Records and reports reflecting the detail level of control are maintained by and are available at the State Department of Accounting and General Services. During the fiscal year ended June 30, 2021, there were no expenditures in excess of appropriations in the individual funds.

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

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

The following schedule reconciles the budgetary amounts to the amounts presented in accordance with GAAP for the fiscal year ended June 30, 2021:

| | <u>General</u> | <u>Med-QUEST</u> | <u>Human Services</u> |
|---|------------------------|------------------|-----------------------|
| Excess (deficiency) of revenues over (under) | | | |
| expenditures - actual on a budgetary basis | \$ 64,231,202 | \$ 5,650,222 | \$ (13,413,388) |
| Transfers | (86,825,851) | 433,947 | 104,632,536 |
| Current year's appropriations encumbered at fiscal year-end | 144,073,850 | 28,608,305 | 48,764,734 |
| Expenditures for liquidation of prior fiscal year encumbrances | (191,822,825) | (40,471,708) | (37,154,359) |
| Net changes in liabilities | 2,014,186 | 9,817,932 | 9,105,563 |
| Net change in accrued medical assistance payable | 767,635 | 14,895,007 | - |
| Accruals related to federal reimbursements for program expenditures | 27,010,327 | (22,859,009) | (7,336,172) |
| Net change in other receivables | 1,488,957 | 56,170 | 753,091 |
| Difference for revenues recognized for GAAP purposes | (15,292,120) | 3,869,134 | (104,415,830) |
| Net change in fund balances - GAAP basis | <u>\$ (54,354,639)</u> | <u>\$ -</u> | <u>\$ 936,175</u> |

Department of Human Services
State of Hawaii
Notes to the Financial Statements
June 30, 2021

4. Cash and Cash Equivalents

The State Director of Finance is responsible for the safekeeping of cash in the State Treasury in accordance with State laws. The Director of Finance may invest any monies of the State which, in the Director's judgment, are in excess of the amounts necessary for meeting the immediate requirements of the State. Cash is pooled with funds from other State agencies and departments and deposited into approved financial institutions or in the State Treasury Investment Pool System. Funds in the investment pool accrue interest based on the average weighted cash balances of each account.

The State requires that depository banks pledge as collateral, government securities held in the name of the State for deposits not covered by federal deposit insurance.

GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, requires disclosures over common deposit and investment risks related to credit risk, interest rate risk, and foreign currency risk. Investments can be categorized by type, maturity and custodian to determine the level of interest rate, credit and custodial risk assumed by the DHS. However, as the DHS's monies are held in the State cash pool, the DHS does not manage its own investments and the types of investments and related interest rate, credit and custodial risks are not determinable at the department level. The risk disclosures of the State's cash pool are included in the State of Hawaii Annual Comprehensive Financial Report (ACFR) which may be obtained from the Department of Accounting and General Services' (DAGS) website: <http://ags.hawaii.gov/accounting/annual-financial-reports>.

Department of Human Services
State of Hawaii
Notes to the Financial Statements
June 30, 2021

5. Receivables

Receivables of the DHS, net of allowance for doubtful accounts, consisted of the following on June 30, 2021:

| | <u>General</u> | <u>Med-Quest</u> | <u>Human Services</u> |
|--|----------------------|----------------------|-----------------------|
| Welfare benefit overpayments | \$ 21,722,820 | \$ 2,119,436 | \$ 27,365,101 |
| Drug rebate receivable | - | 61,884,374 | - |
| Risk share | - | 4,343,338 | - |
| Medicaid providers receivable | 10,200,000 | - | - |
| Medicaid assistance receivable | 2,687,586 | - | - |
| Social Security interim assistance loans | 882,307 | - | - |
| CSEA receivable | 97,706 | - | - |
| Other Med-QUEST receivable | 3,804,358 | 2,000,080 | - |
| | <u>39,394,777</u> | <u>70,347,228</u> | <u>27,365,101</u> |
| Less allowance for doubtful accounts: | | | |
| Welfare benefit overpayments | 20,695,022 | 2,019,156 | 26,070,344 |
| Medicaid providers receivable | 1,747,000 | - | - |
| | <u>22,442,022</u> | <u>2,019,156</u> | <u>26,070,344</u> |
| Receivables, net | <u>\$ 16,952,755</u> | <u>\$ 68,328,072</u> | <u>\$ 1,294,757</u> |

Rebates in dispute and rebates requiring further investigation totaling \$63,906,826 were excluded from the Med-QUEST receivable balance, as these amounts are not likely to be collected.

6. Interfund Receivable and Payable

The general fund had a net receivable due from the special revenue funds totaling \$215,939,354 as of June 30, 2021, for federal reimbursements of program expenditures. The Med-QUEST and Human Services special revenue funds had a payable to the general fund totaling \$137,760,761 and \$78,178,593, respectively, as of June 30, 2021, for federal reimbursements of program expenditures.

Department of Human Services
State of Hawaii
Notes to the Financial Statements
June 30, 2021

7. Capital Assets

| | Balance July 1, 2020 | Additions | Disposals | Other | Balance June 30, 2021 |
|---|-------------------------|----------------------|-----------------|-------------|--------------------------|
| Depreciable Assets: | | | | | |
| Building and improvements | \$ 85,535,288 | \$ 3,028,012 | \$ - | \$ - | \$ 88,563,300 |
| Furniture and equipment | 35,277,840 | 55,566 | (55,566) | - | 35,277,840 |
| Motor vehicles | 1,660,851 | 18,254 | - | - | 1,679,105 |
| Intangible assets – software | 154,627,389 | 5,255,411 | - | - | 159,882,800 |
| Non-Depreciable Assets: | | | | | |
| Software under development | - | 14,291,962 | - | - | 14,291,962 |
| Land | 1 | - | - | - | 1 |
| Total at historical cost | <u>277,101,369</u> | <u>22,649,205</u> | <u>(55,566)</u> | <u>-</u> | <u>299,695,008</u> |
| Less Accumulated Depreciation/ | | | | | |
| Amortization: | | | | | |
| Building and improvements | 42,906,028 | 3,600,840 | - | - | 46,506,868 |
| Furniture and equipment | 34,030,181 | 276,682 | (55,566) | - | 34,251,297 |
| Motor vehicles | 1,462,381 | 81,971 | - | - | 1,544,352 |
| Intangible assets - software | <u>130,375,314</u> | <u>6,942,937</u> | <u>-</u> | <u>-</u> | <u>137,318,251</u> |
| Total accumulated depreciation/amortization | <u>208,773,904</u> | <u>10,902,430</u> | <u>(55,566)</u> | <u>-</u> | <u>219,620,768</u> |
| Capital Assets, net | <u>\$ 68,327,465</u> | <u>\$ 11,746,775</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 80,074,240</u> |

Depreciation expense for the fiscal year ended June 30, 2021 was charged to functions/programs of the DHS as follows.

| | Governmental Activities |
|---|----------------------------|
| Health care programs | \$ 7,142,985 |
| General welfare assistance, employment and support services | 1,976,662 |
| Youth prevention, delinquency and correction services | 721,769 |
| Child welfare and adult community care services | 513,568 |
| Vocational rehabilitation and services for the blind | 450,646 |
| General administration | 90,519 |
| Commission on status of women / commission on fatherhood | 6,281 |
| | <u>\$ 10,902,430</u> |

Department of Human Services
State of Hawaii
Notes to the Financial Statements
June 30, 2021

8. Accrued Compensated Absences

The long-term liability of the DHS for governmental activities consisted of accrued compensated absences. The change in the long-term liability during the fiscal year ended June 30, 2021, was as follows:

| | |
|--------------------------|-----------------------------|
| Balance at July 1, 2020 | \$ 13,868,836 |
| Additions | 8,437,004 |
| Reductions | <u>(5,948,610)</u> |
| Balance at June 30, 2021 | 16,357,230 |
| Less current portion | <u>(4,852,000)</u> |
| | <u><u>\$ 11,505,230</u></u> |

9. Fund Balance

Fund balance constraints by purpose of June 30, 2021 were as follows:

| | General | Med-QUEST Special Revenue | Human Services Special Revenue | Total |
|--|-----------------------|------------------------------|-----------------------------------|-----------------------|
| Committed: | | | | |
| Vocation rehabilitation | \$ - | \$ - | \$ 2,498,042 | \$ 2,498,042 |
| Health care programs | - | 1,438,000 | - | 1,438,000 |
| Child welfare and adult community care | - | - | 1,390,533 | 1,390,533 |
| General administration | - | - | 297,120 | 297,120 |
| General welfare assistance | | | | |
| employment and support services | - | - | 2,145,026 | 2,145,026 |
| Youth prevention, delinquency and | | | | |
| correction services | - | - | 3,693 | 3,693 |
| Commission on the status of women / | | | | |
| commission on fatherhood | - | - | 3,764 | 3,764 |
| | <u>-</u> | <u>-</u> | <u>3,764</u> | <u>3,764</u> |
| Total – committed | - | 1,438,000 | 6,338,178 | 7,776,178 |
| Assigned: | | | | |
| Human services | 105,417,660 | - | - | 105,417,660 |
| Total fund balances | <u>\$ 105,417,660</u> | <u>\$ 1,438,000</u> | <u>\$ 6,338,178</u> | <u>\$ 113,193,838</u> |

Department of Human Services
State of Hawaii
Notes to the Financial Statements
June 30, 2021

10. Non-Imposed Employee Fringe Benefits

Payroll fringe benefit costs of the DHS's employees that are funded by state appropriations (general fund) are assumed by the State and are not charged to the DHS's operating funds. These costs, totaling approximately \$31,463,000 for the fiscal year ended June 30, 2021, have been reported as revenues and expenditures in the general fund of the DHS.

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

11. Leases

The DHS leases office facilities under various operating leases expiring through 2025. Certain leases include renewal and escalation clauses. The DHS's general fund share of lease costs is paid from the State General Fund. The federal share of these lease costs allocable to programs is reported in the special revenue fund of the DHS. The following is a schedule of the approximate minimum future lease commitments for non-cancelable operating leases as of June 30, 2021:

| <u>Fiscal Year Ending June 30,</u> | <u>Amount</u> |
|------------------------------------|----------------------------|
| 2022 | \$ 1,692,000 |
| 2023 | 697,000 |
| 2024 | 626,000 |
| 2025 | <u>152,000</u> |
| | <u><u>\$ 3,167,000</u></u> |

The DHS's rent expenditures for operating leases for the fiscal year ended June 30, 2021, amounted to approximately \$2,116,400 and is included in the accompanying financial statements.

12. Retirement Benefits

Employees' Retirement System

All eligible employees of the DHS are required by Chapter 88, Hawaii Revised Statutes (HRS), to become members of the Employees' Retirement System of the State of Hawaii (ERS), a cost-sharing multiple-employer public employee retirement plan. The ERS provides retirement benefits as well as death and disability benefits. The ERS is governed by a Board of Trustees. All contributions, benefits, and eligibility requirements are established by HRS Chapter 88 and can be amended by legislative action. The ERS issues an annual comprehensive annual financial report that is available to the public. For more information

Department of Human Services
State of Hawaii
Notes to the Financial Statements
June 30, 2021

on the State's benefit plans, refer to the State ACFR and the ERS ACFR. The State's ACFR can be found at the Department of Accounting and General Services' website: <http://ags.hawaii.gov/accounting/annual-financial-reports/>. The ERS ACFR can be found at the ERS website: <http://www.ers.ehawaii.gov/>.

The ERS Pension Trust is comprised of three pension classes for membership purposes and considered to be a single plan for accounting purposes since all assets of the ERS may legally be used to pay the benefits of any of the ERS members or beneficiaries. The ERS provides retirement, disability and death benefits with three membership classes known as the noncontributory, contributory and hybrid retirement plans. The three classes provide a monthly retirement allowance equal to the benefit multiplier (generally 1.25% to 2.25%) multiplied by the average final compensation multiplied by years of credited service. Average final compensation for members hired prior to July 1, 2012 is an average of the highest salaries during any three years of credited service, excluding any salary paid in lieu of vacation for members hired January 1, 1971 or later and the average of the highest salaries during any five years of credited service including any salary paid in lieu of vacation for members hired prior to January 1, 1971. For members hired after June 30, 2012, average final compensation is an average of the highest salaries during any five years of credited service excluding any salary paid in lieu of vacation.

Each retiree's original retirement allowance is increased on each July 1 beginning the calendar year after retirement. Retirees first hired as members prior to July 1, 2012 receive a 2.5% increase each year of their original retirement allowance without a ceiling. Retirees first hired as members after June 30, 2012 receive a 1.5% increase each year of their original retirement allowance without a ceiling. The annual increase is not compounded.

The following summarizes the provisions relevant to the largest employee groups of the respective membership class. Retirement benefits for certain groups, such as police officers, firefighters, some investigators, sewer workers, judges, and elected officials, vary from general employees.

Noncontributory Class

- *Retirement Benefits* – General employees' retirement benefits are determined as 1.25% of average final compensation multiplied by the years of credited service. Employees with 10 years of credited service are eligible to retire at age 62. Employees with 30 years of credited service are eligible to retire at age 55.
- *Disability Benefits* – Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation. 10 years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but

Department of Human Services
State of Hawaii
Notes to the Financial Statements
June 30, 2021

are payable immediately, without an actuarial reduction, and at a minimum of 12.5% of average final compensation.

- *Death Benefits* – For service-connected deaths, the surviving spouse/reciprocal beneficiary receives a monthly benefit of 30% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. Additional benefits are payable to surviving dependent children up to age 18. If there is no spouse/reciprocal beneficiary or surviving dependent children, no benefit is payable.

Ordinary death benefits are available to employees who were active at time of death with at least ten years of credited service. The surviving spouse/reciprocal beneficiary (until remarriage/reentry into a new reciprocal beneficiary relationship) and surviving dependent children (up to age 18) receive a benefit equal to a percentage of the member's accrued maximum allowance unreduced for age or, if the member was eligible for retirement at the time of death, the surviving spouse/reciprocal beneficiary receives 100% joint and survivor lifetime pension and the surviving dependent children receive a percentage of the member's accrued maximum allowance unreduced for age.

Contributory Class for Members Hired Prior to July 1, 2012

- *Retirement Benefits* – General employees' retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with five years of credited service are eligible to retire at age 55.
- *Disability Benefits* – Members are eligible for service-related disability benefits regardless of length of service and receive a one-time payment of the member's contributions and accrued interest plus a lifetime pension of 50% of their average final compensation. 10 years of credited service is required for ordinary disability. Ordinary disability benefits are determined as 1.75% of average final compensation multiplied by the years of credited service but are payable immediately, without an actuarial reduction, and at a minimum of 30% of average final compensation.
- *Death Benefits* – For service-connected deaths, the surviving spouse/reciprocal beneficiary receives a lump sum payment of the member's contributions and accrued interest plus a monthly benefit of 50% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse/reciprocal beneficiary, surviving dependent children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse/reciprocal beneficiary or surviving dependent children/parents, the ordinary death benefit is payable to the designated beneficiary.

Ordinary death benefits are available to employees who were active at time of death with at least one year of service. Ordinary death benefits consist of a lump sum payment of the

Department of Human Services
State of Hawaii
Notes to the Financial Statements
June 30, 2021

member's contributions and accrued interest plus a percentage of the salary earned in the 12 months preceding death, or 50% joint and survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least 10 years of service and designated one beneficiary, or 100% joint and survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

Contributory Class for Members Hired after June 30, 2012

- *Retirement Benefits* – General employees' retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with 10 years of credited service are eligible to retire at age 60.
- *Disability and Death Benefits* – Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 50% of their average final compensation plus refund of contributions and accrued interest. 10 years of credited service is required for ordinary disability.

Death benefits for contributory members hired after June 30, 2012 are generally the same as those for contributory members hired June 30, 2012 and prior.

Hybrid Class for Members Hired Prior to July 1, 2012

- *Retirement Benefits* - General employees' retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with five years of credited service are eligible to retire at age 62. General employees with 30 years of credited service are eligible to retire at age 55.
- *Disability Benefits* - Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation plus refund of their contributions and accrued interest. 10 years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 25% of average final compensation.
- *Death Benefits* - For service-connected deaths, the designated surviving spouse/reciprocal beneficiary receives a lump sum payment of the member's contributions and accrued interest plus a monthly benefit of 50% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse/reciprocal beneficiary, surviving dependent children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse/reciprocal beneficiary or surviving dependent children/parents, the ordinary death benefit is payable to the designated beneficiary.

Department of Human Services
State of Hawaii
Notes to the Financial Statements
June 30, 2021

Ordinary death benefits are available to employees who were active at time of death with at least five years of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest plus a percentage multiplied by 150%, or 50% joint and survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least 10 years of service and designated one beneficiary, or 100% joint and survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

Hybrid Class for Members Hired After June 30, 2012

- *Retirement Benefits* - General employees' retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with 10 years of credited service are eligible to retire at age 65. Employees with 30 years of credited service are eligible to retire at age 60. Sewer workers, water safety officers, and emergency medical technicians may retire with 25 years of credited service at age 55.
- *Disability and Death Benefits* - Provisions for disability and death benefits generally remain the same except for ordinary death benefits. Ordinary death benefits are available to employees who were active at time of death with at least 10 years of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest, or 50% joint and survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least 10 years of service and designated one beneficiary, or 100% joint and survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

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

Contributions are established by HRS Chapter 88 and may be amended through legislature. The employer rate is set by statute based on the recommendations of the ERS actuary resulting from an experience study conducted every five years. Since July 1, 2005, the employer contribution rate is a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liabilities. The contribution rate for the fiscal year 2021 was 24%. The DHS's general fund share of the expense for pension benefits for the fiscal years ended

Department of Human Services
State of Hawaii
Notes to the Financial Statements
June 30, 2021

June 30, 2021 was paid from the State General Fund and totaled approximately \$13,905,000. The DHS's federal share of pension benefits expense for the fiscal years ended June 30, 2021 was \$7,775,000.

The employer is required to make all contributions for noncontributory members. Contributory members hired prior to July 1, 2012 are required to contribute 7.8% of their salary, except for police officers and firefighters who are required to contribute 12.2% of their salary. Contributory members hired after June 30, 2012 are required to contribute 9.8% of their salary, except for police officers and firefighters who are required to contribute 14.2% of their salary. Hybrid members hired prior to July 1, 2012 are required to contribute 6.0% of their salary. Hybrid members hired after June 30, 2012 are required to contribute 8.0% of their salary.

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

Post-Retirement Health Care and Life Insurance Benefits

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

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

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

For employees hired on or after July 1, 2001, and who retire with less than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For

Department of Human Services
State of Hawaii
Notes to the Financial Statements
June 30, 2021

those retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For those employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Only single plan coverage is provided for retirees in this category. Retirees can elect family coverage but must pay the difference.

The actuarial valuation of the EUTF does not provide OPEB information by department or agency. Accordingly, the State's policy on the accounting and reporting for OPEB is to only allocate a portion of the State's Annual Required Contribution (ARC), interest, and any adjustment to the ARC, to component units and proprietary funds that are reported separately in stand-alone departmental financial statements or in the State's ACFR. The basis for the allocation is the number of covered employees for each component unit and proprietary fund.

Contributions are based on negotiated collective bargaining agreements and are limited by State statute to the actual cost of benefit coverage. The DHS's share of the expense for post-retirement health care and life insurance benefits for the fiscal years ended June 30, 2021 was approximately \$10,048,000.

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

13. Risk Management

The DHS is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; and workers' compensation. The State records a liability for risk financing and insurance related losses if it is determined that a loss has been incurred and the amount can be reasonably estimated. The State retains various risks and insures certain excess layers with commercial insurance companies. The excess layers insured with commercial insurance companies are consistent with the prior fiscal year. Settled claims have not exceeded the coverage provided by commercial insurance companies in any of the past 10 fiscal years. A summary of the State's underwriting risks is as follows:

Property Insurance

The State has an insurance policy with a variety of insurers in a variety of layers for property coverage. The deductible for coverage is 3% of loss subject to a \$1 million per occurrence minimum. This policy includes windstorm, earthquake, flood damage, terrorism, and boiler and machinery coverage. The limit of loss per occurrence is \$200 million, except for terrorism which is \$100 million per occurrence.

Crime Insurance

Department of Human Services
State of Hawaii
Notes to the Financial Statements
June 30, 2021

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

General Liability (including torts)

Claims under \$25,000 are handled by the risk management office of the Department of Accounting and General Services. All other claims are handled by the Department of the Attorney General. The State has personal injury and property damage liability, including automobile and public errors and omissions, employee liability, and employee benefits liability insurance policy in force with a \$5 million self-insured retention per occurrence. The annual per occurrence limit is \$7,500,000 for wrongful action and \$12,500,000 for products/completed operations, error & omission and employee benefits liability, and for crime loss, \$10,000,000 with no aggregate limit. Losses under the deductible amount but over the risk management office authority or over the aggregate limit are typically paid from legislative appropriations of the State's General Fund.

Cyber Liability Insurance

The State is insured for various types of cyber-related activities with a loss limit of \$50,000,000 with a deductible of \$1,000,000 per occurrence. This policy includes (with sub-limits) system failure business interruption, dependent business interruption, dependent business interruption system failure, and payment card industry – data security standard coverage.

Self-Insured Risks

The State generally self-insures its automobile no-fault and workers' compensation losses. Automobile losses are administered by third-party administrators. The State administers its workers' compensation losses. The State records a liability for risk financing and insurance related losses, including incurred but not reported, if it is determined that a loss has been incurred and the amount can be reasonably estimated.

At June 30, 2021, the State recorded an estimated loss for workers' compensation, automobile and general liability claims as long-term debt as the losses will not be liquidated with currently expendable available financial resources. The estimated losses will be paid from legislative appropriations of the State's General Fund. The DHS's portion of the State's workers' compensation expense for the fiscal year ended June 30, 2021, was approximately \$394,000.

Department of Human Services
State of Hawaii
Notes to the Financial Statements
June 30, 2021

14. Commitments and Contingencies

Encumbrances

Encumbrances as of June 30, 2021 were as follows:

| <u>Fund</u> | <u>Amount</u> |
|----------------|------------------------------|
| General | \$ 140,202,373 |
| Med-QUEST | 25,875,169 |
| Human Services | <u>33,931,004</u> |
| Total | <u><u>\$ 200,008,546</u></u> |

Accumulated Sick Leave

Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limit, but may be taken only in the event of illness and is not convertible to pay upon termination of employment. However, a DHS employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the ERS. At June 30, 2021, accumulated sick leave was approximately \$39.8 million.

Litigation

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

Federal Awards

The Department receives federal grants that are subject to audit and review by federal grantor agencies that could result in expenditures being disallowed under the terms of the grant. Any disallowed expenditures, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures that may be disallowed by the grantor cannot be determined at this time.

Department of Human Services
State of Hawaii
Notes to the Financial Statements
June 30, 2021

15. Related Party Transactions

The DHS had various amounts due to the State totaling \$218,094,504 as of June 30, 2021, which included federal reimbursements for program expenditures totaling \$187,851,576, receivables totaling \$30,070,143 and cash totaling \$172,785.

16. Transfers

During the fiscal year ended June 30, 2021, the General Fund transferred \$86,515,392 to the Human Services Special Revenue Fund for various programs utilizing the Electronic Benefits Transfers System.

SUPPLEMENTARY INFORMATION

Department of Human Services
State of Hawaii
Schedule of Expenditures of Federal Awards
for the year ended June 30, 2021

| Federal Grantor / Pass-Through Grantor / Program or Cluster Title | Assistance Listing No. | Pass-through Entity Identifying Number | Federal Expenditures | Amount Provided to Subrecipients |
|--|---------------------------|--|-------------------------|-------------------------------------|
| U.S. Department of Health and Human Services: | | | | |
| <i>Other Programs</i> | | | | |
| ACL Independent Living State Grants | 93.369 | | \$ 383,803 | \$ - |
| Preschool Development Birth Through Five | 93.434 | | 173,619 | - |
| ACL Assistive Technology | 93.464 | | 487,000 | - |
| Promoting Safe and Stable Families | 93.556 | | 1,729,584 | 1,619,274 |
| COVID-19 Low-Income Home Energy Assistance | 93.568 | | 296,533 | - |
| Low-Income Home Energy Assistance | 93.568 | | 4,744,549 | - |
| Chaffee Education and Training Vouchers Program (ETV) | 93.599 | | 181,703 | 37,722 |
| Children's Justice Grants to States | 93.643 | | 169,119 | 169,119 |
| COVID-19 Stephanie Tubbs Jones Child Welfare Services Program | 93.645 | | 117,536 | - |
| Stephanie Tubbs Jones Child Welfare Services Program | 93.645 | | 1,165,636 | 1,165,636 |
| COVID-19 Foster Care - Title IV-E | 93.658 | | 424,747 | - |
| Foster Care - Title IV-E | 93.658 | | 14,341,204 | - |
| COVID-19 Adoption Assistance | 93.659 | | 1,604,721 | - |
| Adoption Assistance | 93.659 | | 14,586,568 | - |
| COVID-19 Guardianship Assistance | 93.090 | | 381,856 | - |
| Guardianship Assistance | 93.090 | | 3,658,163 | - |
| Social Services Block Grant | 93.667 | | 15,059,992 | 12,270,556 |
| Child Abuse Prevention and Treatment Act | 93.669 | | 625,194 | 219,471 |
| COVID-19 Family Violence Prevention and Services / Grants for Battered Women's Shelters - Grants to States and Indian Tribes | 93.671 | | 60,198 | - |
| Family Violence Prevention and Services / Grants for Battered Women's Shelters - Grants to States and Indian Tribes | 93.671 | | 859,382 | 859,382 |
| COVID -19 Chafee Foster Care Independence Program | 93.674 | | 75,308 | - |
| Chafee Foster Care Independence Program | 93.674 | | 459,954 | 451,764 |
| State Children's Insurance Program | 93.767 | | 51,074,857 | - |
| Money Follows a Person | 93.791 | | 74,650 | - |
| Temporary Assistance for Needy Families | 93.558 | | 62,649,445 | 17,034,444 |
| <i>Total Other Programs</i> | | | <u>175,385,321</u> | <u>33,827,368</u> |
| Subtotal carried forward | | | <u>\$ 175,385,321</u> | <u>\$ 33,827,368</u> |

Department of Human Services
State of Hawaii
Schedule of Expenditures of Federal Awards (continued)
for the year ended June 30, 2021

| Federal Grantor / Pass-Through Grantor / Program or Cluster Title | Assistance Listing No. | Pass-through Entity Identifying Number | Federal Expenditures | Amount Provided to Subrecipients |
|--|---------------------------|---|-------------------------|-------------------------------------|
| U.S. Department of Health and Human Services (continued): | | | | |
| Subtotal brought forward | | | \$ 175,385,321 | \$ 33,827,368 |
| <i>Medicaid Cluster</i> | | | | |
| State Survey and Certification of Health Care Providers | 93.777 | | 943,314 | - |
| COVID-19 - Medical Assistance Program | 93.778 | | 116,117,938 | - |
| Medical Assistance Program | 93.778 | | 1,825,438,205 | - |
| <i>Total Medicaid Cluster</i> | | | 1,942,499,457 | - |
| <i>CCDF Cluster</i> | | | | |
| COVID-19 Child Care and Development Block Grant | 93.575 | | 1,117,964 | - |
| Child Care and Development Block Grant | 93.575 | | 42,207,610 | 5,173,410 |
| Child Care Mandatory and Matching Funds of the Child Care and Development Fund | 93.596 | | 11,969,725 | - |
| <i>Total CCDF Cluster</i> | | | 55,295,299 | 5,173,410 |
| Total U.S. Department of Health and Human Services | | | 2,173,180,077 | 39,000,778 |
| U.S. Department of Agriculture: | | | | |
| <i>SNAP Cluster</i> | | | | |
| Supplemental Nutrition Assistance Program | 10.551 | | 847,630,895 | - |
| State Administrative Matching Grants for the Supplemental Nutrition Assistance Program | 10.561 | | 25,882,985 | 2,499,478 |
| <i>Total SNAP Cluster</i> | | | 873,513,880 | 2,499,478 |
| <i>Other Programs</i> | | | | |
| COVID-19 Pandemic EBT Food Benefits (P-EBT) | 10.542 | | 164,251,240 | - |
| COVID-19 PEBT Grants to States | 10.649 | | 406,794 | - |
| Fraud Framework Implementation Grant | 10.535 | | 193,500 | - |
| Total U.S. Department of Agriculture | | | 1,038,365,414 | 2,499,478 |
| U.S. Department of Housing and Urban Development: | | | | |
| COVID-19 Emergency Solutions Grants Program | 14.231 | | 843,925 | - |
| Emergency Solutions Grants Program | 14.231 | | 481,045 | 1,304,320 |
| COVID-19 Housing Opportunities for Persons with AIDS | 14.241 | | 30,932 | - |
| Housing Opportunities for Persons with AIDS | 14.241 | | 222,097 | 249,848 |
| Total U.S. Department of Housing and Urban Development | | | 1,577,999 | 1,554,168 |
| U.S. Department of Justice: | | | | |
| Juvenile Justice and Delinquency Prevention - Allocation to States | 16.540 | | 271,436 | 228,663 |
| Prison Rape Elimination Act Reallocation Funds | 16.735 | | 7,037 | - |
| Total U.S. Department of Justice | | | 278,473 | 228,663 |

Department of Human Services
State of Hawaii
Schedule of Expenditures of Federal Awards (continued)
for the year ended June 30, 2021

| Federal Grantor / Pass-Through Grantor / Program or Cluster Title | Assistance Listing No. | Pass-through Entity Identifying Number | Federal Expenditures | Amount Provided to Subrecipients |
|---|------------------------|--|-------------------------|----------------------------------|
| U.S. Department of Labor: | | | | |
| Passed through State Department of Labor and Industrial Relations - Senior Community Service Employment Program | 17.235 | PY19-SCSEP-CC-DHS | \$ 105,605 | \$ - |
| Total U.S. Department of Labor | | | <u>105,605</u> | <u>-</u> |
| Corporation for National and Community Service: | | | | |
| <i>Foster Grandparent/Senior Companion Cluster</i> | | | | |
| Foster Grandparent Program | 94.011 | | 506,549 | - |
| Senior Companion Program | 94.016 | | <u>217,239</u> | <u>-</u> |
| <i>Total Foster Grandparent/Senior Companion Cluster</i> | | | <u>723,788</u> | <u>-</u> |
| Total Corporation for National and Community Service | | | <u>723,788</u> | <u>-</u> |
| Social Security Administration: | | | | |
| <i>Disability Insurance/SSI Cluster</i> | | | | |
| Social Security - Disability Insurance | 96.001 | | <u>7,361,285</u> | <u>-</u> |
| <i>Total Disability Insurance/SSI Cluster</i> | | | <u>7,361,285</u> | <u>-</u> |
| Total Social Security Administration | | | <u>7,361,285</u> | <u>-</u> |
| U.S. Department of the Interior: | | | | |
| Passed through State Governor's Office - Economic, Social, Political Developments of the Territories | 15.875 | Hawaii-CI-2020-1 | <u>13,474,795</u> | <u>-</u> |
| Total U.S. Department of the Interior | | | <u>13,474,795</u> | <u>-</u> |
| U.S. Department of the Treasury: | | | | |
| Passed through the Governor's Office - COVID-19 Coronavirus Relief Fund | 21.019 | | <u>20,258,183</u> | <u>11,692,897</u> |
| Total U.S. Department of the Treasury | | | <u>20,258,183</u> | <u>11,692,897</u> |
| U.S. Department of Education: | | | | |
| Rehabilitation Services - Vocational Rehabilitation Grants to States | 84.126 | | 9,561,509 | - |
| Rehabilitation Services - Independent Living Services for Older Individuals Who are Blind | 84.177 | | 96,990 | - |
| Supported Employment Services for Individuals with the most Significant Disabilities | 84.187 | | <u>53,699</u> | <u>-</u> |
| Total U.S. Department of Education | | | <u>9,712,198</u> | <u>-</u> |
| TOTAL FEDERAL EXPENDITURES | | | <u>\$ 3,265,037,817</u> | <u>\$ 54,975,984</u> |

Department of Human Services
State of Hawaii
Notes to the Schedule of Expenditures of Federal Awards
for the year ended June 30, 2021

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the DHS under programs of the federal government for the year ended June 30, 2021. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the DHS, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the DHS.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, where in certain types of expenditures are not allowable or are limited as to reimbursement.

3. Transfers

Grant awards totaling \$15,615,673 were transferred from Assistance Listing No. 93.558 Temporary Assistance for Needy Families to Assistance Listing No. 93.667 Social Services Block Grant.

4. Supplemental Nutrition Assistance Program

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

5. Indirect Cost Rate

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

PART II

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



A Hawaii Limited Liability Partnership

**Report on Internal Control Over Financial Reporting and
on Compliance and Other Matters Based on an Audit of Financial Statements Performed
in Accordance With *Government Auditing Standards***

Independent Auditor's Report

Office of the Auditor
State of Hawaii

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Department of Human Services of the State of Hawaii (DHS), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the DHS's basic financial statements, and have issued our report thereon dated March 28, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the DHS's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the DHS's internal control. Accordingly, we do not express an opinion on the effectiveness of the DHS's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant

deficiencies may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying *Schedule of Findings and Questioned Costs* as item 2021-001, that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the DHS's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Audit Standards*.

The DHS's Response to Findings

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

Purpose of this Report

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

KMH LLP

KMH LLP

Honolulu, Hawaii
March 28, 2022

PART III

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



A Hawaii Limited Liability Partnership

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

Independent Auditor's Report

Office of the Auditor
State of Hawaii

Report on Compliance for Each Major Federal Program

We have audited the Department of Human Services of the State of Hawaii's (DHS') compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the DHS's major federal programs for the year ended June 30, 2021. The DHS's major federal programs are identified in the summary of the auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the DHS's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the DHS's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our qualified and unmodified opinions on compliance for each major federal program. However, our audit does not provide a legal determination of the DHS's compliance.

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

As described in Findings 2021-002 through 2021-016 in the accompanying *Schedule of Findings and Questioned Costs*, the DHS did not comply with requirements regarding the following:

| Finding # | Assistance Listing # | Program (or Cluster) Name | Compliance Requirement |
|------------------|-----------------------------|--|--|
| 2021-002 | 93.777, 93.778 | Medicaid Cluster | Special Tests and Provisions |
| 2021-003 | 93.777, 93.778 | Medicaid Cluster | Special Tests and Provisions |
| 2021-004 | 93.777, 93.778 | Medicaid Cluster | Special Tests and Provisions |
| 2021-005 | 84.126 | Rehabilitation Services - Vocational Rehabilitation Grant to the State | Reporting |
| 2021-006 | 93.767 | Children's Health Insurance Program | Special Tests and Provisions |
| 2021-007 | 93.767 | Children's Health Insurance Program | Special Tests and Provisions |
| 2021-008 | 93.767 | Children's Health Insurance Program | Special Tests and Provisions |
| 2021-009 | 10.551, 10.561 | SNAP Cluster | Subrecipient Monitoring |
| 2021-010 | 10.551, 10.561 | SNAP Cluster | Special Tests and Provisions |
| 2021-011 | 93.659 | Adoption Assistance | Eligibility |
| 2021-012 | 93.090 | Guardianship Assistance | Eligibility, Activities Allowed or Unallowed, Allowable Cost |
| 2021-013 | 93.558 | Temporary Assistance for Needy Families (TANF) | Special Tests and Provisions |
| 2021-014 | 93.558 | Temporary Assistance for Needy Families (TANF) | Eligibility |
| 2021-015 | 93.558 | Temporary Assistance for Needy Families (TANF) | Special Tests and Provisions |
| 2021-016 | 93.558 | Temporary Assistance for Needy Families (TANF) | Reporting |

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

Qualified Opinion on the Major Federal Programs in the Table Above

In our opinion, except for the noncompliance described in Basis for Qualified Opinion paragraph, the DHS complied, in all material respects, with the types of compliance requirements

referred to above that could have a direct and material effect on the major federal programs identified in the Basis for Qualified Opinion paragraph for the year ended June 30, 2021.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the DHS complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal program identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2021.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2021-17. Our opinion on each major federal program is not modified with respect to this matter.

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

Report on Internal Control Over Compliance

Management of the DHS is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the DHS's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the DHS's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2021-002 through 2021-016 to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2021-018 to be a significant deficiency.

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

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

KMH LLP

KMH LLP

Honolulu, Hawaii
March 28, 2022

PART IV

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs
for the year ended June 30, 2021

Section I – Summary of Auditor’s Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: unmodified

Internal control over financial reporting:

- Material weakness(es) identified? X Yes No
- Significant deficiencies identified? Yes X None

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? X Yes No
- Significant deficiencies identified? X Yes None

Type of auditor’s report issued on compliance for major federal programs: Qualified for all major programs except for Coronavirus Relief Fund and Pandemic EBT Food Benefits which is unmodified.

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

Identification of major programs:

| <u>CFDA Number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|-----------------------|--|
| 10.551, 10.561 | SNAP Cluster |
| 10.542 | Pandemic EBT Food Benefits |
| 84.126 | Rehabilitation Services – Vocational Rehabilitation Grants to States |
| 93.558 | Temporary Assistance for Needy Families (TANF) |
| 93.090 | Guardianship Assistance |
| 93.659 | Adoption Assistance |
| 93.777, 93.778 | Medicaid Cluster |
| 93.767 | Children’s Health Insurance Program |
| 21.019 | Coronavirus Relief Fund |
| 93.575, 93.596 | CCDF Cluster |

Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs (continued)
for the year ended June 30, 2021

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

| | |
|--|---------------------------|
| Dollar threshold used to distinguish between type A and type B programs: | \$9,795,111 |
| Auditee qualified as low-risk auditee? | _____ Yes <u> X </u> No |

Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs (continued)
for the year ended June 30, 2021

Section II – Financial Statement Findings

Finding No.: 2021-001 **Preparation of Accrual Basis Financial Statements**
Type of Finding: Material Weakness

Criteria: In accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, fund financial statements should be prepared using the current financial resources measurement focus and the modified accrual basis of accounting. Under this focus/basis, revenues are recognized only to the extent that they are susceptible to accrual and liabilities are required to be recorded only to the extent that their repayment will require the use of expendable available financial resources. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Condition: We proposed and management accepted several audit adjustments related to the following items:

- Under accrual of intangible asset additions of approximately \$2.5 million and the related depreciation expense of approximately \$600,000.
- Over accrual of depreciation expense of approximately \$1.9 million.
- Under accrual of receivables of approximately \$4.3 million.
- Over accrual of vouchers payable of approximately \$1.6 million
- Over accrual of medical assistance payable liability of approximately \$5.1 million.
- Over accrual of payables to the State of approximately \$5.8 million

Context: We noted that management, in the process of preparing its accrual basis financial statements, had under accrued amounts related to intangible asset additions and receivables, and over accrued amounts related to depreciation expense, vouchers payable, medical assistance payable and payable to the State.

Cause: Management has a process in place to prepare the accrual basis financial statements. However, the over and under accrual adjustments noted above were due to the following:

- Intangible asset additions – Expenditures that met the criteria for capitalization were incorrectly included as operations and maintenance expenditures.
- Depreciation expense – The useful life of the intangible assets was increased, however, that information was not communicated to the individual preparing the schedule which resulted in the recognition of excess depreciation expense. The excess depreciation expense was offset by the erroneous exclusion of capitalized costs discussed above.

Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs (continued)
for the year ended June 30, 2021

Section II – Financial Statement Findings (continued)

Finding No.: 2021-001 Preparation of Accrual Basis Financial Statements (continued)

- Receivables – The amounts due from a managed care organization was inadvertently overlooked by the individual preparing the supporting schedule.
- Vouchers payable – In the process of compiling the vouchers payable inadvertently included expenditures with service dates subsequent to the fiscal year end.
- Medical assistance payable liability – Management did not properly consider the impact of a one-time adjustment used in the calculation the estimated amount of one of the components of the medical assistance payable.
- Payables to the State – In preparing the schedule to support the accrual, management utilized prior year amounts that incorrectly excluded a prior year audit adjustment.

Effect: The over and under accrual of the amounts noted resulted in the initial management prepared financial information being misstated.

Identification of a repeat finding: This is a repeat finding from the immediate previous audit, 2020-001.

Recommendations: We recommend management re-evaluate its process related to the identification and recording of accruals to ensure that the impact arising from changes in operations or circumstances are given the appropriate consideration.

Views of Responsible Officials and Planned Corrective Action: See Part VI Corrective Action Plan.

Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs (continued)
for the year ended June 30, 2021

Section III – Federal Award Findings and Questioned Costs

Finding No.: 2021-002 Refunding of Medicaid Overpayments

Federal Agency: U.S. Department of Health and Human Services
Assistance Listing No.: 93.777 and 93.778
Program: Medicaid Cluster
Requirement: Special Tests and Provisions - Refunding of Medicaid Overpayments
Type of Finding: Non-Compliance and Material Weakness
**Federal award no.
and year:** 2005HI5MAP 2020
2105HI5MAP 2021

Criteria: The State Medicaid Agency, Department of Human Services, Med Quest Division is required to refund the federal share of Medicaid overpayments made to providers in accordance with 42 U.S.C. 1396b and 42 CFR subpart F.

Pursuant to 42 U.S.C. 1396b, the State Medicaid Agency has up to one year from the date of discovery of Medicaid overpayments to recover or attempt to recover the overpayments before the federal share must be refunded, regardless of whether recovery is made from the provider.

Pursuant to 42 CFR 433.320(a)(2) the State Medicaid Agency must credit CMS with the Federal share of overpayments subject to recovery on the earlier of (1) the form CMS-64 submission due to CMS for the quarter in which the State recovers the overpayment from the provider; or (2) the form CMS-64 due to CMS for the quarter in which the 1-year period following discovery ends.

Condition: The Department did not properly credit the CMS-64 report for overpayments discovered.

Context: The Department reported and refunded only collected overpayments, however overpayments discovered and not recovered were not reported and refunded.

Cause: The Department was initially made aware of the requirements as a result of prior year's audit, however, policies and procedures were not put in place in time to take corrective action during the entire year.

Effect: The Department was not in compliance with the requirements.

Questioned costs: N/A

Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs (continued)
for the year ended June 30, 2021

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

Finding No.: 2021-002 Refunding of Medicaid Overpayments (continued)

Identification of a repeat finding: This is a repeat finding from the immediate previous audit, 2020-003.

Recommendations: We recommend the Department establish policies and procedures to ensure compliance with the program requirements.

Views of Responsible Officials and Planned Corrective Action: See Part VI Corrective Action Plan.

Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs (continued)
for the year ended June 30, 2021

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

Finding No.: 2021-003 Revalidation of Provider Eligibility

Federal Agency: U.S. Department of Health and Human Services
Assistance Listing No.: 93.777 and 93.778
Program: Medicaid Cluster
Requirement: Special Tests and Provisions - Provider Eligibility
Type of Finding: Non-Compliance and Material Weakness
**Federal award no.
and year:** 2005HI5MAP 2020
2105HI5MAP 2021

Criteria: The State Medicaid Agency, Department of Human Services, Med Quest Division is required to screen and enroll providers in accordance with 42 CFR Part 455, subpart E and make certain disclosures to the State Medicaid Agency in accordance with 42 CFR Part 455, subpart B.

Pursuant 42 CFR 455.414, the State Medicaid agency must revalidate the enrollment of all providers regardless of provider type at least every 5 years.

Pursuant to 42 CFR 455.432, the State Medicaid Agency must (a) conduct pre-enrollment site visits of providers who are designated as “moderate” or “high” categorical risks to the Medicaid program and (b) must require any enrolled provider to permit CMS, its agents, its designated contractors, or the State Medicaid Agency to conduct unannounced on-site inspections of any or all provider locations.

Pursuant to 42 CFR 455 Subpart B, Providers are to comply with the requirements of the State Plan, including the disclosure requirement.

The Department utilizes DHS Form-1139 as the provider application that screens and verifies licensure and enrollment in the program. DHS Form-1139 also documents the provider agreement to disclose information as required.

Condition: 14 provider files did not contain the required documentation to support compliance with the provider eligibility requirement.

Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs (continued)
for the year ended June 30, 2021

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

Finding No.: 2021-003 Revalidation of Provider Eligibility (continued)

Context: We selected a non-statistical sample of 60 providers for testing out of a population of approximately 5,800 providers. The providers selected for testing represented approximately \$36 million of payments out of a total payment population of approximately \$119 million. The results of our testing were as follows

- 5 providers where the DHS Form-1139 was not maintained.
- 1 provider where documentation was missing which discloses the agreement of the providers to comply with disclosure requirements.
- 5 providers where the DHS Form-1139 did not support revalidation within the most recent 5-year period.
- 2 providers where the DHS Form-1139 did not support revalidation within the most recent 5-year period and the documentation to indicate whether the required pre-enrollment or post-enrollment on-site inspections were performed.
- 1 provider where the DHS Form-1139 was not maintained and documentation was missing to support the provider type and risk level and therefore we could not determine whether on-site visits were required.

Cause: Although the Department has policies and procedures in place requiring the maintenance of required documentation and on-site visits, there was a lack of diligence in complying with the policies and procedures.

Effect: The Department was not in compliance with the requirement resulting in questioned costs.

Questioned costs: \$6,973,399

Identification of a repeat finding: This is a repeat finding from the immediate previous audit, 2020-004.

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

Views of Responsible Officials and Planned Corrective Action: See Part VI Corrective Action Plan.

Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs (continued)
for the year ended June 30, 2021

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

Finding No.: 2021-004 Managed Care Financial Audit

Federal Agency: U.S. Department of Health and Human Services
Assistance Listing No.: 93.777 and 93.778
Program: Medicaid Cluster
Requirement: Special Tests and Provisions – Managed Care Financial Audit
Type of Finding: Non-Compliance and Material Weakness
**Federal award no.
and year:** 2005HI5MAP 2020
2105HI5MAP 2021

Criteria: Pursuant to 42 CFR 438.3(m) the Department must require managed care organizations (MCOs), prepaid inpatient health plans (PIHPs) and prepaid ambulatory health plans (PAHPs) to submit audited financial reports, conducted in accordance with generally accepted accounting principles and generally accepted auditing standards, specific to its Medicaid contract on an annual basis. In addition, pursuant to 42 CFR 438.602(e), the Department must periodically, but no less frequently than once every 3 years, conduct, or contract for the conduct of, an independent audit of the accuracy, truthfulness, and completeness of the encounter and financial data submitted by, or on behalf of, each MCO, PIHP or PAHP.

Condition: The Department did not obtain the required audited financial reports and did not conduct or contract an independent audit of the encounter and financial data submitted.

Context: The requirement to obtain the MCOs' audited financial statements and to conduct or contract for an independent audit of the encounter and financial data submitted was a new program requirement for state fiscal year 2021.

Cause: The Department was not aware of the requirements and therefore did not have policies and procedures in place to address the requirement.

Effect: The Department was not in compliance with the requirements.

Questioned costs: N/A

Identification of a repeat finding: N/A

Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs (continued)
for the year ended June 30, 2021

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

Finding No.: 2021-004 Managed Care Financial Audit (continued)

Recommendations: We recommend the Department read 42 CFR 438.3(m) and 42 CFR 438.602(e), to determine what program requirements the Department is responsible for and then develop and implement policies and procedures to ensure compliance with these program requirements.

Views of Responsible Officials and Planned Corrective Action: See Part VI Corrective Action Plan.

Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs (continued)
for the year ended June 30, 2021

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

Finding No.: 2021-005 Maintaining Proper Case Documentation

Federal Agency: U.S. Department of Education
Assistance Listing No.: 84.126
Program: Rehabilitation Services - Vocational Rehabilitation Grants to States
Requirement: Reporting
Type of Finding: Non-Compliance and Material Weakness
**Federal award no.
and year:** H126A190015 2019
H126A200015 2020

Criteria: Rehabilitation Services Administration (RSA) Policy Directive RSA-PD-19-03 and 34 CFR 361.47 requires State Vocational Rehabilitation agencies to maintain supporting documentation (either hard copies or scanned copies) particularly regarding eligibility determinations, development of the individualized plan for employment, services provided, and case closure in the service record or case management system. Data reported in the case management system must match the supporting documentation for data elements containing critical information.

Condition: 18 cases did not have supporting documentation or there were discrepancies between the information per the case management system and the supporting documentation for one or more key data elements.

Context: We selected a non-statistical sample of 60 participant case files, out of a population of 7,850 based on the participants from two quarterly reports, for testing and noted the following:

- 1 out of 60 selections tested did not have supporting documentation for the date of eligibility determination
- 1 out of 60 selections tested did not have supporting documentation for the start date of employment in primary occupation
- 8 out of 60 selections tested had discrepancies between the date of application per the case management system and per the supporting documentation
- 8 out of 60 selections tested had discrepancies between the date of initial individualized plan for employment per the case management system and per the supporting documentation

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

Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs (continued)
for the year ended June 30, 2021

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

Finding No.: 2021-005 Maintaining Proper Case Documentation (continued)

Effect: Without the appropriate documentation to support the key data elements reported, the Department is unable to demonstrate its compliance with the reporting requirements.

Questioned Costs: None

Identification of a repeat finding: This is a repeat finding of the most recent prior year audit 2020-006.

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

Views of Responsible Officials and Planned Corrective Action: See Part VI Corrective Action Plan.

Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs (continued)
for the year ended June 30, 2021

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

Finding No.: 2021-006 Revalidation of Provider Eligibility

Federal Agency: U.S. Department of Health and Human Services
Assistance Listing No.: 93.767
Program: Children’s Health Insurance Program
Requirement: Special Tests and Provisions - Provider Eligibility
Type of Finding: Non-Compliance and Material Weakness
**Federal award no.
and year:**

| | |
|------------|------|
| 2005HI5021 | 2020 |
| 2105HI5021 | 2021 |

Criteria: The State Medicaid Agency, Department of Human Services, Med Quest Division is required to screen and enroll providers in accordance with 42 CFR Part 455, subpart E and make certain disclosures to the State Medicaid Agency in accordance with 42 CFR Part 455, subpart B.

Pursuant 42 CFR 455.414, the State Medicaid agency must revalidate the enrollment of all providers regardless of provider type at least every 5 years.

Pursuant to 42 CFR 455.432, the State Medicaid Agency must (a) conduct pre-enrollment site visits of providers who are designated as “moderate” or “high” categorical risks to the Medicaid program and (b) must require any enrolled provider to permit CMS, its agents, its designated contractors, or the State Medicaid Agency to conduct unannounced on-site inspections of any or all provider locations.

Pursuant to 42 CFR 455 Subpart B, Providers are to comply with the requirements of the State Plan, including the disclosure requirement.

The Department utilizes DHS Form-1139 as the provider application that screens and verifies licensure and enrollment in the program. DHS Form-1139 also documents the provider agreement to disclose information as required.

Condition: 14 provider files did not contain the required documentation to support compliance with the provider eligibility requirement.

Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs (continued)
for the year ended June 30, 2021

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

Finding No.: 2021-006 Revalidation of Provider Eligibility (continued)

Context: The process of qualifying as an eligible provider is the same for both the CHIP and Medicaid program. We selected a non-statistical sample of 60 providers for testing out of a population of approximately 5,800 providers. The providers selected for testing represented approximately \$1.7 million of payments out of a total payment population of approximately \$5.5 million. The results of our testing were as follows:

- 5 providers where the DHS Form-1139 was not maintained.
- 1 provider where documentation was missing which discloses the agreement of the providers to comply with disclosure requirements.
- 5 providers where the DHS Form-1139 did not support revalidation within the most recent 5-year period.
- 2 providers where the DHS Form-1139 did not support revalidation within the most recent 5-year period and the documentation to indicate whether the required pre-enrollment or post-enrollment on-site inspections were performed.
- 1 provider where the DHS Form-1139 was not maintained and documentation was missing to support the provider type and risk level and therefore we could not determine whether on-site visits were required.

Cause: Although the Department has policies and procedures in place requiring the maintenance of required documentation and on-site visits, there was a lack of diligence in complying with the policies and procedures.

Effect: The Department was not in compliance with the requirement resulting in questioned costs.

Questioned costs: \$122,395

Identification of a repeat finding: N/A

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

Views of Responsible Officials and Planned Corrective Action: See Part VI Corrective Action Plan.

Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs (continued)
for the year ended June 30, 2021

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

Finding No.: 2021-007 Managed Care Financial Audit

Federal Agency: U.S. Department of Health and Human Services
Assistance Listing No.: 93.767
Program: Children’s Health Insurance Program
Requirement: Special Tests and Provisions – Managed Care Financial Audit
Type of Finding: Non-Compliance and Material Weakness
**Federal award no.
and year:**

| | |
|------------|------|
| 2005HI5021 | 2020 |
| 2105HI5021 | 2021 |

Criteria: Pursuant to 42 CFR 438.3(m) the Department must require managed care organizations (MCOs), prepaid inpatient health plans (PIHPs) and prepaid ambulatory health plans (PAHPs) to submit audited financial reports, conducted in accordance with generally accepted accounting principles and generally accepted auditing standards, specific to its Medicaid contract on an annual basis. In addition, pursuant to 42 CFR 438.602(e), the Department must periodically, but no less frequently than once every 3 years, conduct, or contract for the conduct of, an independent audit of the accuracy, truthfulness, and completeness of the encounter and financial data submitted by, or on behalf of, each MCO, PIHP or PAHP.

Condition: The Department did not obtain the required audited financial reports and did not conduct or contract an independent audit of the encounter and financial data submitted.

Context: The requirement to obtain the MCOs’ audited financial statements and to conduct or contract for an independent audit of the encounter and financial data submitted was a new program requirement for state fiscal year 2021.

Cause: The Department was not aware of the requirements and therefore did not have policies and procedures in place to address the requirement.

Effect: The Department was not in compliance with the requirements.

Questioned costs: N/A

Identification of a repeat finding: N/A

Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs (continued)
for the year ended June 30, 2021

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

Finding No.: 2021-007 Managed Care Financial Audit (continued)

Recommendations: We recommend the Department read 42 CFR 438.3(m) and 42 CFR 438.602(e), to determine what program requirements the Department is responsible for and then develop and implement policies and procedures to ensure compliance with these program requirements.

Views of Responsible Officials and Planned Corrective Action: See Part VI Corrective Action Plan.

Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs (continued)
for the year ended June 30, 2021

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

Finding No.: 2021-008 Refunding of Medicaid Overpayments

Federal Agency: U.S. Department of Health and Human Services
Assistance Listing No.: 93.767
Program: Children's Health Insurance Program
Requirement: Special Tests and Provisions - Refunding of Medicaid Overpayments
Type of Finding: Non-Compliance and Material Weakness
**Federal award no.
and year:**

| | |
|------------|------|
| 2005HI5021 | 2020 |
| 2105HI5021 | 2021 |

Criteria: The State Medicaid Agency, Department of Human Services, Med Quest Division is required to refund the federal share of Medicaid overpayments made to providers in accordance with 42 U.S.C. 1396b and 42 CFR subpart F.

Pursuant to 42 U.S.C. 1396b, the State Medicaid Agency has up to one year from the date of discovery of Medicaid overpayments to recover or attempt to recover the overpayments before the federal share must be refunded, regardless of whether recovery is made from the provider.

Pursuant to 42 CFR 433.320(a)(2) the State Medicaid Agency must credit CMS with the Federal share of overpayments subject to recovery on the earlier of (1) the form CMS-64 submission due to CMS for the quarter in which the State recovers the overpayment from the provider; or (2) the form CMS-64 due to CMS for the quarter in which the 1-year period following discovery ends.

Condition: The Department did not properly credit the CMS-64 report for overpayments discovered.

Context: The Department reported and refunded only collected overpayments, however overpayments discovered and not recovered were not reported and refunded.

Cause: The Department was initially made aware of the requirements as a result of prior year's audit, of the Medicaid program, however, policies and procedures were not put in place in time to take corrective action during the entire year.

Effect: The Department was not in compliance with the requirements.

Questioned costs: N/A

Identification of a repeat finding: N/A

Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs (continued)
for the year ended June 30, 2021

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

Finding No.: 2021-008 Refunding of Medicaid Overpayments (continued)

Recommendations: We recommend the Department establish policies and procedures to ensure compliance with the program requirements.

Views of Responsible Officials and Planned Corrective Action: See Part VI Corrective Action Plan.

Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs (continued)
for the year ended June 30, 2021

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

Finding No.: 2021-009 Subrecipient Monitoring

Federal Agency: U.S Department of Agriculture
Assistance Listing No.: 10.551 and 10.561
Program: Supplemental Nutrition and Assistance (SNAP) Cluster
Requirement: Subrecipient Monitoring
Type of Finding: Non-Compliance and Material Weakness
Federal award no. and year:
7HI400HI4 2019 – 2021, 7HI400HI6 2020 – 2021
7HI430HI4 2019 – 2021, 7HI400HI5 2019 – 2022
7HI430HI5 2019 – 2021, 8HI420000 2019 – 2021

Criteria: CFR 200.332(b) requires the pass-thru entity to evaluate each subrecipient's risk of noncompliance for purposes of determining the appropriate subrecipient monitoring related to the subaward. 2 CFR 200.332(d) requires that the pass-thru entity monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward. In lieu of conducting a risk assessment as required by 2 CFR 200.332(b), the Department has adopted a policy to perform an annual audit for all subrecipients which includes a requirement for on-site reviews.

Condition: No on-site reviews were conducted during the year.

Context: The Department has a total of 11 subrecipients, none of which received an on-site review.

Cause: Management indicated that the on-site reviews were not performed due to continued restrictions on travel due to COVID-19. Additionally, prior to the current year, management indicated that on-site reviews had not been conducted due to staffing issues.

Effect: Failure to perform the required on-site reviews resulted in non-compliance with the requirement.

Questioned Costs: None

Identification of a repeat finding: This is a repeat finding from the immediate previous audit, 2020-007.

Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs (continued)
for the year ended June 30, 2021

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

Finding No.: 2021-009 Subrecipient Monitoring (continued)

Recommendations: We recommend that the Department implement risk assessment procedures and, in those situations where an on-site review would normally be required, the Department should devise alternative procedures in lieu of on-site reviews.

Views of Responsible Officials and Planned Corrective Action: See Part VI Corrective Action Plan.

Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs (continued)
for the year ended June 30, 2021

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

Finding No.: 2021-010 EBT Reconciliation

Federal Agency: U.S. Department of Agriculture
Assistance Listing No.: 10.551 and 10.561
Program: Supplemental Nutrition and Assistance (SNAP) Cluster
Requirement: Special Tests and Provisions – EBT Reconciliation
Type of Finding: Non-Compliance and Material Weakness
Federal award no. and year:
7HI400HI4 2019 – 2021, 7HI400HI6 2020 – 2021
7HI430HI4 2019 – 2021, 7HI400HI5 2019 – 2022
7HI430HI5 2019 – 2021, 8HI420000 2019 – 2021

Criteria: 7 CFR 274.4 requires that the Department perform daily reconciliations of all SNAP transactions between the State's Benefit Account, the US Treasury Department, and the EBT contractors.

Condition: Discrepancies identified during the daily reconciliations were not investigated.

Context: In response to a previous finding, the Department commenced performing the required daily reconciliation in February 2020. During the year, the Department's daily reconciliations identified variances which ranged up to approximately \$9.6 million. However, these variances were not investigated and there was no evidence that a review of the daily reconciliations was performed.

Cause: The Department did not have written procedures in place to identify the required steps necessary, including a review, to ensure that any identified variances are resolved in a timely manner.

Effect: Failure to resolve the reconciling items resulted in non-compliance with the requirement.

Questioned Costs: None

Identification of a repeat finding: This is a repeat finding from the immediate previous audit 2020-008.

Recommendations: We recommend that the Department develop procedures to ensure that identified variances are resolved and that the reconciliation is reviewed in a timely manner.

Views of Responsible Officials and Planned Corrective Action: See Part VI Corrective Action Plan.

Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs (continued)
for the year ended June 30, 2021

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

Finding No.: 2021-011 Maintaining Proper Case Documentation to Support Eligibility Determinations

Federal Agency: U.S. Department of Health and Human Services
Assistance Listing No.: 93.659
Program: Adoption Assistance
Requirement: Eligibility
Type of Finding: Non-Compliance and Material Weakness
Federal award no. and year:
2001HIADPT 2020
2101HIADPT 2021

Criteria: Pursuant to 42 USC 673(a)(3), the amount of the adoption assistance payments to be made shall be determined through agreement between the adoptive parents and the State or local agency administering the program, which shall take into consideration the circumstances of the adopting parents and the needs of the child being adopted, and may be readjusted periodically, with the concurrence of the adopting parents (which may be specified in the adoption assistance agreement), depending upon changes in such circumstances.

Pursuant to 42 USC 671(a)(20)(A), the State must have procedures for criminal records checks, including a fingerprint-based checks of national crime information databases (as defined in 28 USC 534(f)(3)(A)), for any prospective adoptive parent before the adoptive parent may be finally approved for placement of a child.

Pursuant to 42 USC 671(a)(20)(B), the State shall check any child abuse and neglect registry maintained by the State for information on any prospective foster or adoptive parent and on any other adult living in the home of such prospective parent.

Pursuant to 42 USC 673(a)(2)(A), the State must determine the child to have special needs in order to be eligible for adoption assistance payments.

Condition: Eligibility determinations for 20 participants were missing supporting documentation required by the State Plan, which encompasses the regulations above.

Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs (continued)
for the year ended June 30, 2021

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

Finding No.: 2021-011 Maintaining Proper Case Documentation to Support Eligibility Determinations (continued)

Context: We selected a non-statistical sample of 60 case files which approximated \$30,000 in monthly payments, out of a population of approximately 2,600 case files which approximated \$15.3 million in total annual benefit payments, for testing and noted exceptions in 20 case files as follows:

- 16 case files where the initial or modified adoption agreement was missing and therefore did not have any support for the amount of the monthly assistance paid.
- 1 case file where the “difficulty of care” determination was missing and therefore did not support the assistance amount paid.
- 1 case file where documentation of the child’s special needs was missing.
- 12 case files where the state, FBI, and/or child abuse and neglect clearances were missing in the case files.

Cause: Although the Department has established policies and procedures in place over the application process and documentation requirements to support the determination of assistance amounts, there was a lack of diligence in complying with the policies and procedures.

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

Questioned Costs: \$11,600

Identification of a repeat finding: N/A

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

Views of Responsible Officials and Planned Corrective Action: See Part VI Corrective Action Plan.

Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs (continued)
for the year ended June 30, 2021

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

Finding No.: 2021-012 Maintaining Proper Case Documentation to Support Eligibility Determinations

Federal Agency: U.S. Department of Health and Human Services
Assistance Listing No.: 93.090
Program: Guardianship Assistance
Requirement: Eligibility, Activities Allowed or Unallowed, Allowable Cost
Type of Finding: Non-Compliance and Material Weakness
Federal award no. and year:
2001HIGARD 2020
2101HIGARD 2021

Criteria: Pursuant to 42 USC 673(d)(1), an executed kinship guardianship assistance agreement with the prospective relative guardian must include the amount of and any adjustments based on the needs of the child. The "Guardianship/Permanency Assistance Agreement" (Agreement) is the agreement executed with the relative guardian. The Agreement outlines the terms and conditions for the participants and the Department, and includes the total amount of assistance payments. The Agreement may be further supplemented due to difficulties in caring for a child as determined by a caseworker on an as needed basis and documented on the "Difficulty of Care" (DOC) worksheet. In the event of an increase or decrease to the amount of the assistance payments, the caseworkers are required to execute a revised Agreement.

Pursuant to 42 USC 673(d)(3)(A), a child is eligible when the state agency determines the following:

- a) With respect to a child who has attained 14 years of age, the child has been consulted regarding the kinship guardianship arrangement.
- b) Eligible for foster care maintenance payments under 42 USC 672 while residing for at least six consecutive months in the home of the prospective relative guardian.
- c) Removed from his or her home pursuant to a voluntary placement agreement or as a result of a judicial determination to the effect that continuation in the home would be contrary to the welfare of the child.

Pursuant to 42 USC 673(a)(4)(A), assistance payments must stop for a child who has attained 18 years of age or greater or 21 years of age if the State determines that the child has a mental or physical handicap.

Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs (continued)
for the year ended June 30, 2021

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

Finding No.: 2021-012 Maintaining Proper Case Documentation to Support Eligibility Determinations (continued)

Pursuant to 42 USC 671(a)(20)(c), any relative guardian must satisfactorily have met a criminal records check, including a fingerprint-based check of national crime information databases (as defined in 28 USC 534(e)(3)(A)), and for checks described in 42 USC 671(a)(20)(B) on any relative guardian and any other adult living in the home of any relative guardian, before the relative guardian may receive kinship guardianship assistance payments on behalf of the child.

Condition: Eligibility determinations for 30 participants were missing supporting documentation required by the regulations above.

Context: We selected a non-statistical sample of 60 case files which approximated \$25,000 in monthly benefit payments, out of a population of approximately 600 case files which approximated \$3.6 million in total annual benefit payments, for testing and noted exceptions in 30 case files as follows:

- 19 case files where the initial or modified guardianship agreements was missing and therefor did not support the monthly assistance paid.
- 5 case files where the DOC was missing or did not support the amount paid.
- 7 case files where the eligibility supporting documents such as birth certificate, court order, consent form and 6 months of foster care eligibility were missing in the case files.
- 6 case files where the state, FBI, and/or child abuse and neglect clearances were missing in the case files.
- 1 case file where a participant was receiving foster care and guardianship assistance payments in the same months.

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

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

Questioned Costs: \$9,170

Identification of a repeat finding: This is a repeat finding from the immediate previous audit 2020-010.

Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs (continued)
for the year ended June 30, 2021

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

**Finding No.: 2021-012 Maintaining Proper Case Documentation to Support Eligibility
Determinations (continued)**

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

Views of Responsible Officials and Planned Corrective Action: See Part VI Correction Action Plan.

Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs (continued)
for the year ended June 30, 2021

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

Finding No.: 2021-013 Income Eligibility and Verification System

Federal Agency: U.S. Department of Health and Human Services
Assistance Listing No.: 93.558
Program: Temporary Assistance for Needy Families (TANF)
Requirement: Special Test – Income Eligibility and Verification System
Type of Finding: Non-Compliance and Material Weakness
Federal award no. and year:

| | | |
|------------|------------------|------|
| 1402HITANF | 2014, 1502HITANF | 2015 |
| 1601HITANF | 2016, 1801HITANF | 2018 |
| 1901HITANF | 2019, 2001HITANF | 2020 |
| 2101HITANF | 2021 | |

Criteria: Title 45 CFR 205.55, requires the State agency to request through the Income Eligibility and Verification System (IEVS), wage information, unemployment compensation, Social Security Administration, unearned income, and any other income information.

Condition: 16 participants where the income information requested through IEVS did not agree to the information utilized to determine the participants benefit amount.

Context: We selected a non-statistical sample of 60 case files for testing and noted 16 instances where the Department's records did not support the use of the income information obtained through IEVS to evaluate or re-evaluate the benefit calculation.

Cause: Program management indicated that there are policies and procedures in place regarding the use of the IEVS but these policies and procedures were not followed.

Effect: Failure to properly use IEVS information to evaluate benefit amounts resulted in potential over payments of benefits.

Questioned costs: \$6,145

Identification of a repeat finding: This is a repeat finding from the immediate previous audit, 2020-11.

Recommendation: The Department should be more diligent in consistently following its policies and procedures.

Views of Responsible Officials and Planned Corrective Action: See Part VI Corrective Action Plan.

Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs (continued)
for the year ended June 30, 2021

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

Finding No.: 2021-014 Maintaining Proper Case Documentation to Support Eligibility Determinations

Federal Agency: U.S. Department of Health and Human Services
Assistance Listing No.: 93.558
Program: Temporary Assistance for Needy Families (TANF)
Requirement: Eligibility
Type of Finding: Material Weakness and Non-Compliance
Federal award no. and year:

| | | | |
|------------|-------|------------|------|
| 1402HITANF | 2014, | 1502HITANF | 2015 |
| 1601HITANF | 2016, | 1801HITANF | 2018 |
| 1901HITANF | 2019, | 2001HITANF | 2020 |
| 2101HITANF | 2021 | | |

Criteria: The State of Hawaii Temporary Assistance for Needy Families State Plan (State Plan) states that a review of all eligibility requirements is required every 12 months for all TANF households. In addition, Administration for Children and Families (ACF) program instruction TANF-ACF-PI-2020-01 indicates that States may make program changes but must submit a plan amendment within 30 days of the program change. The program instruction also recommends that the State seek guidance from ACF on whether a particular action is allowable under program requirements.

Condition: Eligibility re-determinations for 15 participants were not completed in accordance with the State Plan.

Context: We selected a non-statistical sample of 60 participant files, representing approximately \$36,000 of monthly benefit payments, out of a population of approximately 4,900 cases, representing approximately \$28,000,000 of annual benefit payments, for testing. We noted exceptions in 15 case files where eligibility redeterminations were not completed in the timeframe required by the State Plan, resulting in potential benefit overpayments of \$8,120.

Cause: Due to the COVID-19 pandemic, the Department elected to suspend all eligibility redeterminations from December 2020 until July 2021. Although program changes are allowed, the Department was not aware of the requirement to submit an amendment to the State Plan within 30 days of the program change or to seek guidance from ACF on whether a particular action is allowable under program requirements.

Effect: Failure to submit the plan amendment or to seek guidance from ACF on whether a particular action is allowable under program requirements, resulted in non-compliance with the requirement and potential questioned costs.

Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs (continued)
for the year ended June 30, 2021

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

Finding No.: 2021-014 Maintaining Proper Case Documentation to Support Eligibility Determinations (continued)

Questioned Costs: \$8,120

Identification of a repeat finding: This is a repeat finding from the immediate previous audit, 2020-13.

Recommendations: We recommend that the Department work with ACF to determine what remediation actions, if any, are required.

Views of Responsible Officials and Planned Corrective Action: See Part VI Corrective Action Plan.

Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs (continued)
for the year ended June 30, 2021

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

Finding No.: 2021-015 Maintaining Proper Case Documentation to Support Compliance with Child Support Non-Cooperation Requirement

Federal Agency: U.S. Department of Health and Human Services
Assistance Listing No.: 93.558
Program: Temporary Assistance for Needy Families (TANF)
Requirement: Special Tests and Provisions - Child Support Non-Cooperation
Type of Finding: Non-Compliance and Material Weakness
Federal award no. and year:

| | | |
|------------|------------------|------|
| 1402HITANF | 2014, 1502HITANF | 2015 |
| 1601HITANF | 2016, 1801HITANF | 2018 |
| 1901HITANF | 2019, 2001HITANF | 2020 |
| 2101HITANF | 2021 | |

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

Condition: There were 10 participant files where documentation was missing to support whether or not the Department took appropriate action related to the participants' non-cooperation.

Context: We selected a non-statistical sample of 25 participant files for testing out of a population of 241 participant files that were initially determined by the Title IV-D agency as not cooperating with the child support enforcement requirements. We noted 10 participant files did not contain any correspondence, notices, or documentation to indicate whether any follow up action, up to and including case closure and cessation of benefits, were performed. Consequently, there may be potential overpayments of benefits of \$40,038.

Cause: There was a lack of diligence in following the Department's established policies and procedures to ensure compliance with the requirements.

Effect: Failure to retain documentation to support a determination that appropriate action was taken limits the Department's ability to demonstrate compliance with the requirement and resulted in questioned costs.

Questioned Costs: \$40,038

Identification of a repeat finding: This is a repeat finding from the immediate previous audit, 2020-12.

Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs (continued)
for the year ended June 30, 2021

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

Finding No.: 2021-015 Maintaining Proper Case Documentation to Support Compliance with Child Support Non-Cooperation Requirement (continued)

Recommendations: We recommend that the Department diligently perform the required procedures until its proposed system based corrective actions are completed.

Views of Responsible Officials and Planned Corrective Action: See Part VI Corrective Action Plan.

Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs (continued)
for the year ended June 30, 2021

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

Finding No.: 2021-016 Special Reporting for Federal Funding Accountability and Transparency Act

Federal Agency: U.S. Department of Health and Human Services
Assistance Listing No.: 93.558
Program: Temporary Assistance for Needy Families (TANF)
Requirement: Reporting
Type of Finding: Non-Compliance and Material Weakness
Federal award no. and year: 2101HITANF 2021

Criteria: 2 CFR part 170, requires recipients of grants to report first-tier subawards of \$30,000 or more to the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS). For subaward information, the report should be submitted no later than the end of the month following the month in which the obligation was made.

Condition: Reports for 7 subawards were not submitted timely.

Context: We selected 7 out of 62 subawards for testing and noted the following:

| Transactions Tested | Subaward Not Reported | Report Not Timely | Subaward Amount Incorrect | Subaward Missing Key Elements |
|---------------------|-----------------------|-------------------|---------------------------|-------------------------------|
| 7 | 0 | 7 | 0 | 0 |

| Dollar amount of Tested Transactions | Subaward Not Reported | Report Not Timely | Subaward Amount Incorrect | Subaward Missing Key Elements |
|--------------------------------------|-----------------------|-------------------|---------------------------|-------------------------------|
| \$1,700,000 | \$0 | \$1,700,000 | \$0 | \$0 |

Cause: Program management indicated that they were unaware that there was a deadline to submit the reports online.

Effect: Failure to submit the reports timely resulted in non-compliance of the requirement.

Questioned costs: N/A

Identification of a repeat finding: N/A

Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs (continued)
for the year ended June 30, 2021

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

Finding No.: 2021-016 Special Reporting for Federal Funding Accountability and Transparency Act (continued)

Recommendation: The Department should establish policies and procedures to ensure compliance with the requirement.

Views of Responsible Officials and Planned Corrective Action: See Part VI Corrective Action Plan.

Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs (continued)
for the year ended June 30, 2021

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

Finding No.: 2021-017 Maintaining Proper Case Documentation to Support Eligibility Determinations

Federal Agency: U.S. Department of Agriculture
Assistance Listing No.: 10.551 and 10.561
Program: Supplemental Nutrition and Assistance (SNAP) Cluster
Requirement: Special Tests and Provisions – ADP System for SNAP
Type of Finding: Known Questioned Costs When Likely Questioned Costs Are Greater Than \$25,000

Federal award no. and year:
7HI400HI4 2019 – 2021, 7HI400HI6 2020 – 2021
7HI430HI4 2019 – 2021, 7HI400HI5 2019 – 2022
7HI430HI5 2019 – 2021, 8HI420000 2019 – 2021

Criteria: Per 7 CFR 272.10(b)(1)(i) the SNAP system should be sufficiently automated to determine eligibility and calculate benefits or validate the eligibility worker's calculations by processing and storing all casefile information necessary for the eligibility determination and benefit computation (including but not limited to all household members' names, addresses, dates of birth, social security numbers, individual household members' earned and unearned income by source, deductions, resources and household size).

Condition: 1 case file where a participant's benefit calculation was not supported by the documents retained in the SNAP system.

Context: We selected a non-statistical sample of 60 participant files which approximated \$39,000 in monthly payments, out of a population of approximately 105,000 participant files which approximated \$863 million in total annual benefit payments, for testing and noted 1 case file where income information was entered manually did not agree to the documentation retained in participant's case file, resulting in an overpayment of benefits of \$30 per month.

Cause: There was a likely clerical error during the manual input of income information.

Effect: A participant received excess benefits resulting in questioned costs.

Questioned Costs: \$30

Identification of a repeat finding: Not applicable

Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs (continued)
for the year ended June 30, 2021

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

Finding No.: 2021-017 Maintaining Proper Case Documentation to Support Eligibility Determinations (continued)

Recommendations: We recommend the Department emphasize the importance of diligently checking that any information entered manually agrees to the supporting documentation retained in the participant's file. We also recommend the Department consider implementing a secondary review of participant files where information affecting the calculation of benefits is entered manually.

Views of Responsible Officials and Planned Corrective Action: See Part VI Corrective Action Plan.

Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs (continued)
for the year ended June 30, 2021

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

Finding No.: 2021-018 EBT Card Security

Federal Agency: U.S. Department of Agriculture
Assistance Listing No.: 10.551 and 10.561
Program: Supplemental Nutrition and Assistance (SNAP) Cluster
Requirement: Special Tests and Provisions – EBT Card Security
Type of Finding: Significant Deficiency
Federal award no. and year:
7HI400HI4 2019 – 2021, 7HI400HI6 2020 – 2021
7HI430HI4 2019 – 2021, 7HI400HI5 2019 – 2022
7HI430HI5 2019 – 2021, 8HI420000 2019 – 2021

Criteria: 7 CFR 274.8(b)(3) requires the Department to ensure there are storage and control measures to control blank unissued electronic benefit transfer (EBT) cards. To address this requirement, the Department has adopted a policy that requires (1) monthly or quarterly review of the DHS Form 1494, Bulk Inventory Control Log; (2) daily or weekly review of the DHS Form 1495, Hawaii EBT Card Daily Control Log; and (3) monthly review of the DHS Form 1050, EBT Card Destruction Control Log.

Condition: Documentation of reviews performed for the DHS Form 1494, Form 1495, and/or Form 1050 was not maintained for 2 processing centers.

Context: We selected a non-statistical sample of 4 processing centers out of the Department's 20 processing centers and noted that supervisor reviews performed over the DHS Form 1494, Form 1495, and/or Form 1050 was not maintained at 2 processing centers.

Cause: Although the Department has policies and procedures in place regarding reviews, the policies and procedures do not explicitly require a supervisor sign-off documenting their review resulting in the inconsistent application of documentation of supervisor reviews.

Effect: Documentation of supervisor approval of the review over the DHS Form 1494, Form 1495, and/or Form 1050 was not maintained at 2 processing centers increasing the risk of non-compliance with the requirement.

Questioned Costs: None

Identification of a repeat finding: This is a repeat finding from the immediate prior audit. See finding no 2020-009.

Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs (continued)
for the year ended June 30, 2021

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

Finding No.: 2021-018 EBT Card Security (continued)

Recommendations: We recommend the Department modify their policies and procedures to explicitly require supervisor sign-offs documenting their review.

Views of Responsible Officials and Planned Corrective Action: See Part VI Corrective Action Plan.

PART V

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Department of Human Services
State of Hawaii
Summary Schedule of Prior Audit Findings
for the year ended June 30, 2021

Status Report

This section contains the current status of our prior audit recommendations. The recommendations are referenced to the previous audit report for the fiscal year ended June 30, 2020, dated March 15, 2021.

Section II – Financial Statement Findings

2020-001 Accrual of Fringe Benefits

Recommendations: We recommend management be more diligent in preparing and reviewing the fringe benefits payable calculation.

Corrective Action Taken or Planned: Management is continuing to review schedules before submitting them.

Status: Corrective action is ongoing. See finding 2021-001.

Section III – Federal Award Findings and Questioned Costs

2020-002 Complete Eligibility Applications and Annual Eligibility Re-Verifications in a Timely Manner

CFDA No.: 93.777 and 93.778

Program: Medicaid Cluster

Recommendations: We recommend the Department implement training and standard operating procedures to ensure eligibility determinations is completed in a timely manner.

Corrective Action Taken or Planned: CMS provided new guidance on how to redetermine eligibility while maintaining enrollment during the Public Health Emergency (PHE). MQD is developing plans for how we will unwind from the PHE once it ends, including how we will act on eligibility redeterminations. We have just begun the redeterminations for passive renewals in February 2021. Additionally, we have completed the creation of new training materials that further reinforce the steps for timely eligibility determinations and redeterminations.

Status: This finding is no longer applicable.

Department of Human Services
State of Hawaii
Summary Schedule of Prior Audit Findings (continued)
for the year ended June 30, 2021

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

2020-003 Refunding of Medicaid Overpayments

CFDA No.: 93.777 and 93.778

Program: Medicaid Cluster

Recommendations: We recommend the Department establish policies and procedures to ensure compliance with the program requirements, and to follow them diligently.

Corrective Action Taken or Planned: A new report template has been created and as of 7/1/2021, the Managed Care Organizations (MCOs) will report quarterly on all active overpayments (either overpayments identified during the reporting period or identified in previous reporting periods but are still in active recovery). For these overpayments, Health Plans will report on the full amount of overpayment identified as well as the amount they have recovered. The MCOs will also report ad hoc on any overpayments from MQD they have identified through capitation (e.g., if they notice they receive capitation for a member who is deceased or who is duplicated).

Status: Corrective action is ongoing. See finding 2021-002.

This is the first year that this finding was reported.

2020-004 Revalidation of Provider Eligibility

CFDA No.: 93.777 and 93.778

Program: Medicaid Cluster

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

Corrective Action Taken or Planned: The Department is now live with HOKU, our new web-based provider enrollment system, as of August 3, 2020. The HOKU system is expected to allow the Department to adhere to and comply with the policies and procedures outlined in 42CFR 455 Subparts B and E. The transition from paper to electronic documentation for provider enrollment will be completed when all Hawaii Medicaid providers register into HOKU and update their information. As providers register on to HOKU, the Department will have complete records for each provider, including new and revalidation information contained on the DHS Form 1139, on-site visit documentation, license information, and criminal background check documentation. The Department has an assigned Project Manager to manage the HOKU project implementation and operational aspects and has additionally assigned a TA supervisor for the provider enrollment section in the latter part of 2019 to provide daily oversight as well as management and problem solving around the HOKU implementation. This TA supervisor is stepping down in September 2021, and the Department is actively recruiting for a replacement.

Department of Human Services
State of Hawaii
Summary Schedule of Prior Audit Findings (continued)
for the year ended June 30, 2021

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

Development of an internal staff library of policies and procedures is on-going and will be made available to all staff and vendors working on provider enrollment. Proactive strategies scheduled in the fall of 2021 to get providers to register onto HOKU include instructing Managed Care Organizations (MCOs) to temporarily withhold provider claim payments for those providers that have not registered into HOKU. As of mid-September 2021, the Department has completed the registration of 2,252 providers.

Status: Corrective action is ongoing. See finding 2021-003.

This finding initially occurred in the fiscal year ended June 30, 2018.

2020-005 Program Income

CFDA No.: 84.126

Program: Vocational Rehabilitation

Recommendations: We recommend the Department develop written policies and procedures over program income and diligently follow them to ensure compliance with the Federal requirements.

Corrective Action Taken or Planned:

1. Procedure on Period of Performance and Program Income was published on 12/30/2020. This is currently under review to further clarify roles and responsibilities to include: DVR Administrator (VRA)/designee (certify annual allocation of program income), SSO Program Specialist (processing SSA reimbursements, reporting and annual tracking), DHS Fiscal Management Office (FMO) Accountant (obligating funds as instructed by DVR Administrator/designee and ensure proper accounting codes are used and tracked), Branch Administrators/Clerical staff/Contract Monitors (tracking of program income expenditures allocated to their respective programs/contracts, as applicable). Updates projected to be completed by September 2021.
2. Procedures for Annual Allocation of Program Income was drafted in January 2021. Projected completion by September 2021, before start of new Federal fiscal year on 10/1/2021.
3. Feedback provided by RSA in November 2020 and incorporated into Period of Performance and Program Income Procedures published in December 2020.
4. Fiscal management review meetings conducted on 11/20/2020 and 1/14/21. Period of Performance and Program Income Procedures was reviewed with management in Management Huddle on 12/3/2020. Formal training and discussion regarding Period of Performance and Program Income will be conducted for applicable staff no later than January 2022.

Department of Human Services
State of Hawaii
Summary Schedule of Prior Audit Findings (continued)
for the year ended June 30, 2021

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

5. ICF Directive: Implementation of Training Verification was published on 7/21/2021 to confirm and document all training completed by staff. Program Income training will be incorporated into individual staff training plans as applicable. Staff training plans will be completed by end of October 2021. Once training plans are implemented, planning will commence for Program Income training to be held by January 2022. Copies of training logs will be maintained in designated training repository with regular reviews and monitoring to ensure completion of required trainings.

Status: This finding is no longer applicable.

2020-006 Maintaining Proper Case Documentation

CFDA No.: 84.126

Program: Vocational Rehabilitation

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

Corrective Action Taken or Planned:

1. Branch Administrators (BAs) will provide a report on the progress of this review by September 30, 2021 utilizing the training verification form issued to staff on 7/21/21.
2. BAs will provide a report on the progress of this review by October 31, 2021 utilizing the training verification form issued to staff on 7/21/21.
3. HDVR Case File Document Checklist in being finalized and anticipated to be published by 9/30/2021.
4. Referral and Application Procedures are drafted and currently under review by SSO Team. Anticipated publish date: 9/30/2021.
5. Eligibility Determination Procedures will follow after final Application and Referral Procedures are finalized. Anticipated publish date: 11/30/2021.

DVR is simultaneously working with San Diego State University (SDSU) to develop training modules for Eligibility Determination. DVR expects to send the draft eligibility training slides by end of October 2021 for SDSU to begin creating module. Eligibility Determination Module expected to be finalized no later than June 30, 2022.

6. IPE Development Procedures will follow after final Eligibility Determination Procedures are finalized. Anticipated publish date: 3/31/2022. DVR is simultaneously working with SDSU to develop training module for IPE Development. IPE Development Module expected to be finalized no later than June 30, 2022.
7. VR Eligibility Determination slides from DVR due to SDSU by end of October 2021. Modules anticipated no later than June 2022.

IPE Development slides from DVR tentatively projected to be sent to SDSU by end of calendar year 2021 for training module development to be completed no later than June 2022.

Department of Human Services
State of Hawaii
Summary Schedule of Prior Audit Findings (continued)
for the year ended June 30, 2021

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

8. BAs are expected to use activity due reports and report their status to VRA on a monthly basis. Records of monthly reports including activity due status reports for each BA kept in SharePoint file.
9. BAs are expected to complete monthly case reviews and report their status to VRA on a monthly basis. Records of monthly audits for each BA kept in SharePoint file for review.
10. HDVR Case File Document Checklist is being finalized and is anticipated to be published by 9/30/2021. This Case File Document Checklist is used throughout the life of a case and at closure, in lieu of a case closure checklist, to ensure the case file has the documentation to support and validate timelines and dates.
11. Support staff are currently used in this capacity at the Branch level.
12. BAs are expected to complete monthly case reviews and report their status to VRA on a monthly basis. Records of monthly audits for each BA kept in SharePoint file for review.
13. SSO personnel specialist is working with Branch Administrators and DHS position management staff on performance expectations. Performance expectations to be defined by 9/30/22 to be used in FFY 2023 performance expectations and reviews.

Status: Corrective action is ongoing. See finding 2021-005.

This finding initially occurred in the fiscal year ended June 30, 2019.

2020-007 Subrecipient Monitoring

CFDA No.: 10.551 and 10.561

Program: Supplemental Nutrition and Assistance Program Cluster

Recommendations: We recommend that the Department perform the annual on-site review as required or consider revising their policy to include an annual risk assessment of subrecipients to determine the appropriate level of subrecipient monitoring.

Corrective Action Taken or Planned: Develop a comprehensive subrecipient monitoring plan for SFY22 for E&T, SNAP Ed, and SNAP Outreach contracts with the new E&T program specialist and temporarily assigned SNAP Ed/Outreach specialist.

- Development of on-site review tools and timeline for conducting on site or remote monitoring to be completed by 09/30/21.
- The plan will also include notification and logistics for conducting on-site or remote monitoring of E&T contractors and SNAP Ed and Outreach providers. Two-week notice to the contractor with review date and tools to be used will be issued, and additional time may be provided if travel arrangements are needed for the review.
- On a quarterly basis, one to two E&T, SNAP Ed, and SNAP Outreach contractors will be scheduled for the on-site or remote monitoring and review.

Department of Human Services
State of Hawaii
Summary Schedule of Prior Audit Findings (continued)
for the year ended June 30, 2021

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

- Plan will also include quarterly desk review of selected budget line item for all E&T, SNAP Ed, and SNAP Outreach contracts.
- For E&T contracts, SNAPO completed quarterly desk review of selected budget line items during QE 6/2021 – completed 07/23/2021

Complete subrecipient monitoring reviews of all SNAPO subrecipients by the end of SFY22.

Status: Corrective action is ongoing. See finding 2021-009.

This finding initially occurred in the fiscal year ended June 30, 2015

2020-008 EBT Reconciliation

CFDA No.: 10.551 and 10.561

Program: Supplemental Nutrition and Assistance Program Cluster

Recommendations: We recommend that the Department develop procedures to ensure the daily reconciliation is completed, identified variances are resolved and the reconciliation is reviewed in a timely manner.

Corrective Action Taken or Planned: We are still trying to get reports that will breakdown the daily issuances by individuals to make it easier to reconcile.

Status: Correction action is ongoing. See finding 2021-010.

This finding initially occurred in the fiscal year ended June 30, 2019

2020-009 EBT Card Security

CFDA No.: 10.551 and 10.561

Program: Supplemental Nutrition and Assistance Program Cluster

Recommendations: We recommend the Department follow their policy to secure unissued EBT cards.

Corrective Action Taken or Planned: EBT Project Manager reviewed the EBT Card Security Policy and Procedures with each of the two Section Administrators who directly oversee each of the two units that were cited for not having the unissued EBT cards locked up. Each of these two Section Administrators then reviewed the policy and procedures with the unit Supervisors and reminded them to enforce the EBT card security policy and procedures at all times.

Department of Human Services
State of Hawaii
Summary Schedule of Prior Audit Findings (continued)
for the year ended June 30, 2021

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

The EBT Project Manager also reviewed the EBT Card security procedures with the Branch Administrator and Assistant Branch Administrator to remind all units to follow the policies and procedures that are in place for EBT card security.

Status: Partially resolved. See finding 2021-018.

This finding initially occurred in the fiscal year ended June 30, 2019.

2020-010 Maintaining Proper Case Documentation to Support Eligibility Determinations
CFDA No.: 93.090

Program: Guardianship Assistance

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

Corrective Action Taken or Planned: Effective immediately, the Staff Development Office (SDO) staff shall provide training to the Social Services Assistants (SSA) regarding maintaining proper documentation of Guardianship Assistance cases. Also, SDO must provide training to Licensing staff on processing and maintaining clearances.

Both New Hire and Annual SSA Trainings conducted by SDO staff shall:

- 1) Include samples of “The Guardianship/Permanency Assistance Agreement” and “Difficulty of Care” forms.
- 2) Provide SSAs with information of the importance and instructions of completing both forms.

Social Service Assistants shall:

- 1) Review their assigned Legal Guardianship cases to ensure the correct amount is reflective on “The Guardianship/Permanency Assistance Agreement.”
 - a) if the amount(s) are incorrect, SSAs shall contact the relative provider immediately to have them sign an updated agreement form reflecting the correct rate of pay.
- 2) Verify the “Difficulty of Care (DOC) Agreement” form is supplemented in the case record due to difficulties caring for a child as determined by the Social Worker.
 - a) if the document is missing/incomplete, SSAs shall notify the Social Worker and execute an initial/revised DOC Agreement form.
- 3) Ensure eligibility supporting documents including the child’s birth certificate, court order, consent form and 6 months of foster board payments are included in the case record.
 - a) any missing documents must be followed-up with immediately by the SSA.

Department of Human Services
State of Hawaii
Summary Schedule of Prior Audit Findings (continued)
for the year ended June 30, 2021

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

Child Care Licensing staff shall:

- 1) Review all cases to ensure all state, FBI, and/or child abuse and neglect clearances are included in the licensing files.
- 2) Certifies all clearances are valid. Otherwise, staff shall conduct clearances immediately of those that have expired.

Management Information Compliance Unit (MICU) staff shall:

- 1) Continue working with internal auditors to follow-up with pending documents of cases that are selected to review.
- 2) Follow-up with the SSA on missing/incomplete eligibility documents of assigned cases.

Status: Corrective action is ongoing. See finding 2021-012

This finding initially occurred in the fiscal year ended June 30, 2014.

2020-011 Income Eligibility and Verification System

CFDA No.: 93.558

Program: Temporary Assistance for Needy Families Cluster

Recommendations: The Department should be more diligent in consistently following its policies and procedures.

Corrective Action Taken or Planned: An updated policy clarification, #21-010, was issued on March 18, 2021, that reiterated the security guidelines, safeguarding procedures and requirements of information obtained through the IEVS.

The TANF Program Office intends to develop a “TANF Program Operational Procedures Manual” which will include a section to specifically address the following—conducting IEVS queries; how data obtained may be used for eligibility determination purposes; and how to properly document the information.

After the IEVS section of the “TANF Program Operational Procedures Manual” is finalized, the financial assistance training will be updated to incorporate IEVS procedures into the TANF section of the training curriculum.

Status: Corrective action is ongoing. See finding 2021-013.

This finding initially occurred in the fiscal year ended June 30, 2019.

Department of Human Services
State of Hawaii
Summary Schedule of Prior Audit Findings (continued)
for the year ended June 30, 2021

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

2020-012 Maintaining Proper Case Documentation to Support Compliance with Child Support Non-Cooperation Requirement

CFDA No.: 93.558

Program: Temporary Assistance for Needy Families Cluster

Recommendations: We recommend that the Department diligently perform the required procedures and to develop system controls to suspend benefits until non-cooperation is addressed.

Corrective Action Taken or Planned: The timeline for the new eligibility system's completion has been pushed back, and the pilot rollout is tentatively scheduled for late 2022.

A new policy clarification, #21-030, titled “Paternity Establishment Referral to Child Support Enforcement Agency (CSEA),” was issued on 08/19/21, that addressed child support requirements as a condition of eligibility for TANF applicants and recipients; alerts generated through the CSEA and DHS-BESSD eligibility systems; and a list received from CSEA containing TANF cases who were deemed non-cooperating; and the lists distribution to the Processing Centers to take appropriate action.

Included with policy clarification #21-030 is a new section of the TANF Program Operational Procedures Manual, Procedure 04-003 titled, “Paternity Establishment Referral to CSEA.” Procedure 04-003 was developed to outline in detail the proper processing of a referral in the HAWI eligibility system to the CSEA system for TANF application and recipient cases.

Status: Corrective action is ongoing. See finding 2021-015.

This finding initially occurred in the fiscal year ended June 30, 2014.

2020-013 Maintaining Proper Case Documentation to Support Eligibility Determinations

CFDA No.: 93.558

Program: Temporary Assistance for Needy Families Cluster

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

Corrective Action Taken or Planned: The TANF Program Office intends to create a new TANF Program Operational Procedures manual. The manual will include a chapter that describes the application interview process - from application disposition to processing reapplications. A section within this chapter will address the DHS 1006 “Interview Documentation” and define what is proper documentation. In addition to the application interview process chapter, the manual will include a chapter that addresses quality assurance and quarterly case reviews. The First-To-Work Program Operational Procedures Section 15-104, “Work Verification Plan

Department of Human Services
State of Hawaii
Summary Schedule of Prior Audit Findings (continued)
for the year ended June 30, 2021

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

(WVP) Audits,” will be used as a model to structure the quality assurance and quarterly reviews of TANF eligibility cases.

After the application interview process chapter of the “TANF Program Operational Procedures Manual” is finalized, the financial assistance training will be updated to incorporate the procedures into the TANF section of the training curriculum.

Status: Corrective action is ongoing. See finding 2021-014.

**2020-014 Maintaining Proper Case Documentation to Support Eligibility Determinations
CFDA No.: 15.875**

Program: Economic, Social, and Political Development of the Territories

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

Corrective Action Taken or Planned: Med-QUEST Eligibility Branch Administrator discussed relevant Program and Policy Directive and reinforced document retention to properly support determinations.

Status: This finding is no longer applicable.

PART VI

CORRECTIVE ACTION PLAN

DAVID Y. IGE
GOVERNOR



CATHY BETTS
DIRECTOR

JOSEPH CAMPOS II
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF HUMAN SERVICES
Office of the Director
P.O. Box 339
Honolulu, Hawaii 96809-0339

AQCRO 22.002

March 28, 2022

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

Dear Mr. Choy:

In accordance with 2 CFR 200.511(c), we have enclosed the Department of Human Services' views of responsible officials and corrective action plans related to the State Fiscal Year (SFY) 2021 audit report findings and recommendations.

If you have any questions regarding these corrective action plans or need assistance in other areas of the SFY 2021 audit, please contact Mrs. Vickie Edu, Financial Evaluation Supervisor, at (808) 586-4878.

Sincerely,

A handwritten signature in blue ink, appearing to read "for Cathy Betts".

Cathy Betts
Director

Enclosure

State of Hawaii
Department of Human Services
Corrective Action Plans for Findings and Recommendations
For the State Fiscal Year Ended June 30, 2021

| Finding | Views of Responding Officials, Corrective Action Plans, Expected Completion Date, Responding Officials |
|----------|---|
| 2021-001 | <p>Views of responsible Officials: The Department agrees with the finding and will implement corrective action.</p> <p>Corrective Action Taken or Planned: We will be re-evaluating our processes related to the identification and recording of accruals to ensure that the impact arising from changes in operations or circumstances are given the appropriate consideration.</p> <p>Expected Completion Date: June 30, 2022</p> |
| 2021-002 | <p>View of Responsible Official: The Department agrees with the finding and will implement corrective action.</p> <p>Corrective Action Taken or Planned: A new report template has been created and as of July 1, 2021, the MCOs will report quarterly on all active overpayments (either overpayments identified during the reporting period or identified in previous reporting periods but are still in active recovery). For these overpayments, Health Plans will report on the full amount of overpayment identified as well as the amount they have recovered. The MCOs will also report ad hoc on any overpayments from MQD they've identified through capitation (e.g., if they notice they receive capitation for a member who is deceased or who is duplicated).</p> <p>End Date: The Health Plans have already begun to submit this report as of February 2022.</p> |
| 2021-003 | <p>View of Responsible Official: The Department agrees with the finding and will implement corrective action.</p> <p>Corrective Action Taken or Planned: Lack of staffing and a paper intensive process are the root causes of this finding. The State worker hiring freeze caused by the COVID pandemic further exacerbated the staffing issues. To remediate the staffing issue, a vendor was brought on to assist with provider enrollment processing, the vacant supervisor position was filled with a temporarily assigned staff member, and recruitment for the unfilled provider enrollment contract specialist positions began as soon as the State hiring freeze was lifted. DHS intends to fill all open staff positions by the end of 2022, and if needed, will instruct the vendor to temporarily hire additional staff. Regarding the existing paper intensive process, a new online provider enrollment system (HOKU) that went into production on August 3, 2020 has reduced the paper application volume to less than 1% of all applications. Providers are now able to upload all pdf attachments to the HOKU application directly. There continues to be additional and on-going required upgrades to HOKU, to improve and streamline the provider enrollment experience.</p> <p>End Date: January 1, 2023</p> |

State of Hawaii
Department of Human Services
Corrective Action Plans for Findings and Recommendations
For the State Fiscal Year Ended June 30, 2021

| Finding | Views of Responding Officials, Corrective Action Plans, Expected Completion Date, Responding Officials |
|----------|--|
| 2021-004 | <p>View of responsible Official: The Department agrees with the finding and will implement corrective action.</p> <p>Corrective Action Taken or Planned: Med-QUEST plans to procure services for this requirement and plans to have a contract in place prior to July 1, 2022.</p> <p>End Date: July 1, 2022</p> |
| 2021-005 | <p>Views of responsible Officials: The Department agrees with the finding and corrective action will be implemented.</p> <p>Corrective Action Taken or Planned:</p> <ol style="list-style-type: none"> 1. Review current internal control guidance by April 30, 2022. <ul style="list-style-type: none"> • In September 2021, DVR issued a procedure under category “Record of Service” entitled “Use of Casefile Documents Checklist Form”. In this procedure, all Vocational Rehabilitation Specialists (VRS) are mandated to use the DHS2008 (REV 07/2021), <u>Case File Documents Checklist Form</u>, an internal control instrument designed to ensure all reportable individuals and participants of the Vocational Rehabilitation (VR) program have a case record of services that complies with the documentation and timeline requirements including the following: <ol style="list-style-type: none"> i. Required eligibility determination and IPE timelines ii. File contains all essential supporting documents including Certification of Eligibility for VR services signed and dated by the VRS along with copies of all documentation from qualified personnel that assisted in determining eligibility/ineligibility. iii. Primary employment start date and supporting documents. iv. Ensure that all dates in the system match the supporting documentation for date of application and date of IPE. 2. Eligibility Determination Training <ul style="list-style-type: none"> • General Eligibility Determination training was completed on January 24-26, 2022, with a recording and associated training documents uploaded to DVR shared drive so that it is accessible for review at any time for current and new VRS. A review of the documents required when determining eligibility will be conducted at the upcoming monthly SSO, Branch Administrator (BA), Supervisor meeting on March 31, 2022. This will be followed by Branch meetings during the first two weeks in April where BAs and Supervisors will review and discuss current internal controls, the eligibility determination checklist, Supervisor/BA case closure procedures which are more qualitative reviews prior to a case being closed, and AWARE compliance reports for the Branch counseling staff, in order to identify needed |

State of Hawaii
Department of Human Services
Corrective Action Plans for Findings and Recommendations
For the State Fiscal Year Ended June 30, 2021

| Finding | Views of Responding Officials, Corrective Action Plans, Expected Completion Date, Responding Officials |
|---------|--|
| | <p>improvements. The April reviews at Branch level of the required eligibility documentation, procedures, status of compliance per monthly Branch Eligibility Determination reports, will be tracked in Branch minutes to validate staff attendance. Copies of the minutes will be shared with the VR Administrator by end of April 2022.</p> <ul style="list-style-type: none"> • DVR has planned an on-site eligibility training in the summer of 2022 to be conducted by the Rehabilitation Services Administration's federally funded VR Technical Assistance Center for Quality Management (VRTAC-QM). A review of required documentation will be included in training. Staff training plans will document all staff completing this training. A recording of the training and associated documents will also be made available on DVR shared drive for staff to access. • BAs/Supervisors will review all eligibility determinations for VRS I, VRS II, and new hires and enter case notes verifying review of each case record. <p>3. Review of federal and agency policy on Certification of Eligibility or Ineligibility and publish updated Eligibility Determination Procedures inclusive of eligibility extensions.</p> <ul style="list-style-type: none"> • Review of 34CFR 361.42 - Assessment for determining eligibility and priority for services at next monthly BA, Supervisor, SSO meeting on March 31, 2022. Confirm with staff this rule shall be adhered to when determining eligibility. • Review of HDVR Policy, HAR 401.1-9.1 with BAs and Supervisors at next monthly SSO, Branch Administrator, Supervisor meeting on March 31, 2022, for the BA and Supervisor review and discussion with the respective Branch staff. Confirm with staff this policy shall be adhered to when determining eligibility. • HDVR submitted draft Eligibility Determination Procedures January 30, 2022 for RSA's comments/edits to finalize updates to internal controls. Eligibility-related internal controls procedures that will be included in HDVR's Service Manual for Vocational Rehabilitation Specialist and Branch Administrators/Supervisors will be developed pending RSA's comments/edits for the proposed updates to Eligibility Determination Procedures. HDVR's Service Manual for VRS and BAs/Supervisors will include eligibility-related internal controls once updates are completed. DVR expects to publish the final eligibility procedures by summer of 2022 prior to VRTAC-QM scheduled training and will include the requirement of supporting documentation for date of eligibility determination. Eligibility procedures supplement federal and state policies and BAs/Supervisors shall |

State of Hawaii
Department of Human Services
Corrective Action Plans for Findings and Recommendations
For the State Fiscal Year Ended June 30, 2021

| Finding | Views of Responding Officials, Corrective Action Plans, Expected Completion Date, Responding Officials |
|---------|--|
| | <p>continue to comply with DVR's existing Eligibility Determination Policies 34CFR 361.42 and HAR 402.1-9.1.</p> <ul style="list-style-type: none"> • All BAs will be required to review the federal and state policy 34CFR 361.42 and HAR 401.1-9.1 and submit verification signed by all VR staff with eligibility determination assignments, including quality assurance reviews, to verify they have reviewed and understand the eligibility determination process. • All BAs will review procedures with staff after they are finalized and submit to SSO verification signed by all VR staff, as applicable, that they have reviewed and understand the eligibility determination procedures. • All BAs will continue to monitor compliance with documentation through qualitative reviews of eligibility determinations by VRS I, II, and newly hired VRS, as well as monthly review all requests for case closures, and case management system reports on timely eligibility compliance rates of 90%. For rates below 90%, BAs will meet with VRS I, II, III staff and their supervisor to identify strategies for compliance at 90% rate and monitor the identified staff compliance bi-weekly. <p>4. Ensure case management system parameters can support proper recording of eligibility determination that matches documentation by establishing rules for data input, i.e., date of eligibility can be recorded in Akamai-AWARE according to documentation requirements within 14-days of eligibility determination. Planned completion of this corrective action in summer 2022.</p> <p>5. Review the start date of employment in primary occupation per DVR's internal controls to determine if further updates to internal controls are needed by April 30, 2022.</p> <ul style="list-style-type: none"> • Ensure that procedures and case management system parameters support proper recording of primary employment information including start date with supporting documentation. <p>6. Monthly Case File Audits</p> <ul style="list-style-type: none"> • All BAs and/or supervisors will continue to conduct 5 comprehensive case reviews monthly on active VR cases and record in DVR SharePoint site under each branch's applicable folder located at: DHS DVR-Resources > Documents > CASE REVIEW > MONTHLY BRANCH CASE REVIEWS for VRA, VRAA and SSO review. Reviews at the Branch level will include the following, but is not limited to a review of all eligibility determination documentation within the 60-day eligibility determination period (including eligibility extension, if applicable), all IPEs meet 90-day development/completion and meet all prescribed requirements according |

State of Hawaii
Department of Human Services
Corrective Action Plans for Findings and Recommendations
For the State Fiscal Year Ended June 30, 2021

| Finding | Views of Responding Officials, Corrective Action Plans, Expected Completion Date, Responding Officials |
|---------|---|
| | <p>to policy; review of purchases and services provided; review of employment placement and dates of placement in primary employment; review of proper supporting documentation and that dates align with Akamai-Aware dates in all areas of review, and review of case notes to ensure that they thoroughly document the services provided for sustained compliance with policy and internal controls.</p> <ul style="list-style-type: none"> • Comprehensive case reviews will also be completed for every case closure prior to the supervisor's approval to close. • BA/Sup's shall review all VRS I and VRS II cases on an ongoing basis while they are considered "trainees". • SSO Specialist will conduct case review of 5 random cases monthly in addition to reviews by Supervisors and BAs. <p>7. Review and evaluate the need for updates to internal controls to ensure that date of application and initial individualized plan for employment match supporting documentation by April 30, 2022.</p> <ul style="list-style-type: none"> • Ensure that procedures and system parameters support proper recording of dates to align with supporting documentation on file. <p>8. BAs will develop action plans for their respective branches to ensure that compliance is met for all findings in this corrective action report by April 30, 2022.</p> <ol style="list-style-type: none"> a. Ensure supporting documentation for the date of eligibility determination b. Ensure supporting documentation for the start date of employment in primary occupation c. Rectify discrepancies between the date of application per the case management system and per the supporting documentation d. Rectify discrepancies between the date of initial individualized plan for employment per the case management system and per the supporting documentation <p>9. BAs will develop and review with VRA for approval a branch corrective action plan to meet and sustain compliance associated with DVR's internal controls and any identified deviations from monthly compliance reviews.</p> <p>End Date: June 30, 2022</p> |

State of Hawaii
Department of Human Services
Corrective Action Plans for Findings and Recommendations
For the State Fiscal Year Ended June 30, 2021

| Finding | Views of Responding Officials, Corrective Action Plans, Expected Completion Date, Responding Officials |
|----------|---|
| 2021-006 | <p>View of Responsible Official: The Department agrees with the finding and will implement corrective action.</p> <p>Corrective Action Taken or Planned: Lack of staffing and a paper intensive process are the root causes of this finding. The State worker hiring freeze caused by the COVID pandemic further exacerbated the staffing issues. To remediate the staffing issue, a vendor was brought on to assist with provider enrollment processing, the vacant supervisor position was filled with a temporarily assigned staff member, and recruitment for the unfilled provider enrollment contract specialist positions began as soon as the State hiring freeze was lifted. DHS intends to fill all open staff positions by the end of 2022, and if needed, will instruct the vendor to temporarily hire additional staff. Regarding the existing paper intensive process, a new online provider enrollment system (HOKU) that went into production on August 3, 2020 has reduced the paper application volume to less than 1% of all applications. Providers are now able to upload all pdf attachments to the HOKU application directly. There continues to be additional and on-going required upgrades to HOKU, to improve and streamline the provider enrollment experience.</p> <p>End Date: January 1, 2023</p> |
| 2021-007 | <p>View of responsible Official: The Department agrees with the finding and will implement corrective action.</p> <p>Corrective Action Taken or Planned: Med-QUEST plans to procure services for this requirement and plans to have a contract in place prior to July 1, 2022.</p> <p>End Date: July 1, 2022</p> |
| 2021-008 | <p>View of Responsible Official: The Department agrees with the finding and will implement corrective action.</p> <p>Corrective Action Taken or Planned: A new report template has been created and as of July 1, 2021, the MCOs will report quarterly on all active overpayments (either overpayments identified during the reporting period or identified in previous reporting periods but are still in active recovery). For these overpayments, Health Plans will report on the full amount of overpayment identified as well as the amount they have recovered. The MCOs will also report ad hoc on any overpayments from MQD they've identified through capitation (e.g., if they notice they receive capitation for a member who is deceased or who is duplicated).</p> <p>End Date: The Health Plans have already begun to submit this report as of February 2022.</p> |

State of Hawaii
Department of Human Services
Corrective Action Plans for Findings and Recommendations
For the State Fiscal Year Ended June 30, 2021

| Finding | Views of Responding Officials, Corrective Action Plans, Expected Completion Date, Responding Officials |
|----------|--|
| 2021-009 | <p>View of Responsible Official: The Department agrees with the finding and will implement corrective action.</p> <p>Corrective Action Taken or Planned: Due to staffing changes and the on-going pandemic restrictions, only a limited amount of subrecipient monitoring could be done. The acting SNAPO Outreach specialist was able to conduct virtual subrecipient monitoring of nine subrecipients. Quarterly desk reviews of selected budget line items and desk reviews for invoices received during the quarter ended 06/21 were also conducted, however no site visits were conducted during FY 2021 due to the pandemic. As hiring for a permanent E&T program specialist is still on-going and pandemic restrictions continue, subrecipient monitoring and risk assessments will be conducted.</p> <p>End Date: September 30, 2022</p> |
| 2021-010 | <p>View of responsible Official: The Department agrees with the finding and will implement corrective action.</p> <p>Corrective Action Taken or Planned: FMO is in the process of creating new reports to identify the daily variances. Once these reports are created, we will be able to reconcile the EBT account daily. As of now, the reports we have do not provide the necessary information to identify these variances. FMO will also create written procedures on how to reconcile the EBT account.</p> <p>End Date: June 30, 2022</p> |
| 2021-011 | <p>View of responsible Official: The Department agrees with the finding and will implement corrective action.</p> <p>Corrective Action Taken or Planned: Effective immediately, the Social Services Division staff shall maintain proper documentation of Adoption Assistance cases.</p> <p>Social Service Assistants (SSAs) shall:</p> <ol style="list-style-type: none"> 1) Complete the "Adoption Assistance Agreement" (DHS 1578) by having the prospective/adoptive parent and the DHS representative sign the form and scanning and sending the electronic copy to the Management Information Compliance Unit (MICU) to verify its accuracy. <ol style="list-style-type: none"> a) Review their assigned Adoption cases to ensure the correct amount is reflective on "Adoption Assistance Agreement". b) If the amount(s) are incorrect, SSAs shall contact the prospective/adoptive parent immediately to have them sign an updated agreement form reflecting the correct rate of pay. |

State of Hawaii
Department of Human Services
Corrective Action Plans for Findings and Recommendations
For the State Fiscal Year Ended June 30, 2021

| Finding | Views of Responding Officials, Corrective Action Plans, Expected Completion Date, Responding Officials |
|---------|--|
| | <p>2) Verify the "Difficulty of Care (DOC) Agreement" form is supplemented in the case record due to difficulties caring for a child as determined by the Social Worker.</p> <ul style="list-style-type: none"> a) If the document is missing/incomplete, SSAs shall notify the Social Worker and execute an initial/revised DOC Agreement form. b) Verify that the "difficulty of care" determination amount matches the assistance amount paid. <p>3) Ensure supporting DOC documentation of the child's special needs is included in the case record.</p> <ul style="list-style-type: none"> a) If the document is missing/incomplete, SSAs shall notify the Social Worker and execute the supporting DOC documentation of the child's special needs. <p>The Staff Development Office (SDO) staff shall provide training to the SSAs regarding maintaining proper documentation. Also, SDO must provide training to Licensing staff on processing and maintaining clearances.</p> <p>Both New Hire and Annual SSA Trainings conducted by SDO staff shall:</p> <ul style="list-style-type: none"> 1) Include samples of "The Adoption Assistance Agreement" and "Difficulty of Care" forms. 2) Provide SSAs with information of the importance and instructions of completing both forms. <p>Licensing staff shall:</p> <ul style="list-style-type: none"> 1) Review all cases to ensure all national, state, FBI, and/or child abuse and neglect clearances are included in the licensing files. 2) Certify all clearances are valid. Otherwise, staff shall conduct clearances immediately of those that have expired. <p>MICU staff shall:</p> <ul style="list-style-type: none"> 1) Alert SSAs to complete the "Adoption Assistance Agreement" form by populating the All-In Care Listing and proving staff with all children turning 6 years old and 12 years old each month. <ul style="list-style-type: none"> a) Verify the documents have been scanned electronically by the SSAs. 2) Continue working with internal auditors to follow-up with pending documents of cases that are selected to review. 3) Follow-up with the SSAs on missing/incomplete eligibility documents of assigned cases. <p>Policies and procedures will be reviewed and updated, as needed, to support workflow and practice to meet specified requirements.</p> <p>Expected Completion Date: On-going</p> |

State of Hawaii
Department of Human Services
Corrective Action Plans for Findings and Recommendations
For the State Fiscal Year Ended June 30, 2021

| Finding | Views of Responding Officials, Corrective Action Plans, Expected Completion Date, Responding Officials |
|----------|--|
| 2021-012 | <p>View of responsible Official: The Department agrees with the finding and will implement corrective action.</p> <p>Corrective Action Taken or Planned: Effective immediately, the Social Services Division (SSD) staff shall maintain proper documentation of Guardianship Assistance cases.</p> <p>Social Service Assistants (SSAs) shall:</p> <ol style="list-style-type: none"> 1) Complete the “The Guardianship/Permanency Assistance Agreement” (DHS 1663) by having the resource caregiver (RCG) and Section Administrator sign the form and scanning the electronic copy into the State of Hawaii Automated Keiki Assistance (SHAKA) system for the Management Information Compliance Unit (MICU) to verify its accuracy. <ol style="list-style-type: none"> a) Review their assigned Legal Guardianship cases to ensure the correct board amount is reflective on “The Guardianship/Permanency Assistance Agreement”. b) If the amount(s) are incorrect, SSAs shall contact the relative provider immediately to have them sign an updated agreement form reflecting the correct rate of pay. 2) Verify the “Difficulty of Care (DOC) Agreement” form is supplemented in the case record due to difficulties caring for a child as determined by the Social Worker. <ol style="list-style-type: none"> a) If the document is missing/incomplete, SSAs shall notify the Social Worker and execute an initial/revised DOC Agreement form. 3) Ensure eligibility supporting documents including the child’s birth certificate, court order, consent form and 6 months of foster board payments are included in the case record. Supervisors shall be responsible to remind staff to apply for the child’s birth certificate through the Department of Health and their social security card through the Social Security Administration immediately once the child enters foster care status. <ol style="list-style-type: none"> a) Any missing documents must be followed-up with immediately with the SSA by their Supervisors. b) Court orders shall be scanned into the SHAKA system for MICU to verify completion. 4) Verify the participant isn’t receiving both foster care and guardianship assistance payments simultaneously through the Child Protective Services System (CPSS) payment screens. |

State of Hawaii
Department of Human Services
Corrective Action Plans for Findings and Recommendations
For the State Fiscal Year Ended June 30, 2021

| Finding | Views of Responding Officials, Corrective Action Plans, Expected Completion Date, Responding Officials |
|----------|---|
| | <p>The Staff Development Office (SDO) staff shall provide training to the SSAs regarding maintaining proper documentation including vital documents. Also, SDO must provide training to Licensing staff on processing and maintaining clearances. Both New Hire and Annual SSA Trainings conducted by SDO staff shall:</p> <ol style="list-style-type: none"> 1) Include samples of “The Guardianship/Permanency Assistance Agreement” and “Difficulty of Care” forms. 2) Provide SSAs with information of the importance and instructions of completing both forms. <p>Child Care Licensing staff shall:</p> <ol style="list-style-type: none"> 1) Review all cases to ensure all national, state, FBI, and/or child abuse and neglect clearances are included in the licensing files. 2) Certify all clearances are valid. Otherwise, staff shall conduct clearances immediately of those that have expired. <p>MICU staff shall:</p> <ol style="list-style-type: none"> 1) Alert Social Services Assistants to complete the “Guardianship/Permanency Assistance Agreement” form by populating the All-In Care Listing and proving staff with all children turning 6 years old and 12 years old each month. <ol style="list-style-type: none"> a) Verify the documents have been scanned electronically by the SSAs through SHAKA. 2) Continue working with internal auditors to follow-up with pending documents of cases that are selected to review. 3) Follow-up with the SSA’s on missing/incomplete eligibility documents of assigned cases. <p>Expected Completion Date: June 30, 2022</p> |
| 2021-013 | <p>View of responsible Official: The Department agrees with the finding and will implement corrective action.</p> <p>Corrective Action Taken or Planned: The DHS 1006, <u>Interview Documentation</u> form, must be completed by the eligibility staff when interview is conducted and initial applications are processed. The form is also required when annual eligibility recertifications are processed for recipient families.</p> <p>Under Section XI of the DHS 1006 form lists the IEVS inquiries. It requires the eligibility staff to indicate which IEVS inquiries were completed. However, it does not include fields to require staff to document details such as date of query, findings, and what information were used for eligibility determination. Therefore, the DHS 1006 will be revised to create a new section specifically for IEVS and other third-party queries. The section will include fields that will require the eligibility staff to</p> |

State of Hawaii
Department of Human Services
Corrective Action Plans for Findings and Recommendations
For the State Fiscal Year Ended June 30, 2021

| Finding | Views of Responding Officials, Corrective Action Plans, Expected Completion Date, Responding Officials |
|----------|--|
| | <p>document details regarding their queries and information on their findings.</p> <p>After the DHS 1006 is revised, the form will be disseminated to the eligibility staff with instructions on how to complete the new IEVS section.</p> <p>End Date: September 30, 2022</p> |
| 2021-014 | <p>View of responsible Official: The Department agrees with the finding and will implement corrective action.</p> <p>Corrective Action Taken or Planned: ACF was consulted in December 2021. A letter will be submitted to notify ACF of the temporary amendments to the Hawaii TANF State Plan.</p> <p>End Date: April 30, 2022</p> |
| 2021-015 | <p>View of responsible Official: The Department agrees with the finding and will implement corrective action.</p> <p>Corrective Action Taken or Planned: Notice of CSEA Non-Compliance is transmitted via system interface between KEIKI and HAWI. Notices appear in HAWI as Eligibility Worker Alerts (EWALs). When operations were based on caseload management (i.e., cases were assigned to eligibility workers), the EWALs were managed, and actions were completed by the assigned eligibility workers. However, operations are no longer operating caseload management style but as task-oriented process. Therefore, cases are not reviewed in the system unless a client applies, reports a mandatory change, at point of 6-month simplified reporting, or at annual recertification. CSEA non-compliance alerts are outside of these processes unless the Processing Centers receive emails or faxed notifications from CSEA. Otherwise, actions are not taken on any system interface alerts of CSEA non-compliance until a case is worked on in HAWI.</p> <p>No system modifications will be made to the HAWI system because we are currently building a new eligibility system that will replace HAWI in its entirety. As a temporary solution, at the beginning of each month, we will request the Office of Information Technology (OIT) to run monthly ad hoc reports to capture all EWALs received from the KEIKI system. The ad hoc reports will be disseminated to the affected Processing Centers to take appropriate action.</p> <p>End Date: September 30, 2022</p> |

State of Hawaii
Department of Human Services
Corrective Action Plans for Findings and Recommendations
For the State Fiscal Year Ended June 30, 2021

| Finding | Views of Responding Officials, Corrective Action Plans, Expected Completion Date, Responding Officials |
|----------|---|
| 2021-016 | <p>View of responsible Official: The Department agrees with the finding and will implement corrective action.</p> <p>Corrective Action Taken or Planned: Subawards will be entered into the FSRS within the appropriate timeframe following the execution of the contract.</p> <p>End Date: Not applicable as reporting of federal subawards is an on-going requirement.</p> |
| 2021-017 | <p>View of responsible Official: The Department agrees with the finding and will implement corrective action.</p> <p>Corrective Action Taken or Planned: On February 9, 2022, SNAP office reminded the processing centers staff to ensure that supporting documents are placed in the system – client’s electronic case folder, HAWI case notes, documentation in DHS 1006, if applicable, when calculating income and benefits. Any information entered manually must be consistent with the documentation placed or stored in the system and case file. Supervisors or quality maintenance workers will randomly review case files documentation and benefit calculations entered manually. Staff was also reminded to refer to the verification requirement desk aids available in SharePoint as well as the existing program clarification on Income Projection and Budgeting, PC 18-014. Likewise, SNAP office will ask the Staff Development Office to ensure that this information is covered and emphasized in the training of new eligibility workers.</p> <p>End Date: June 30, 2022</p> |
| 2021-018 | <p>View of responsible Official: The Department agrees with the finding and will implement corrective action.</p> <p>Corrective Action Taken or Planned: The EBT Office will revise forms DHS 1494, DHS 1495, and DHS 1050 to add an additional column where the unit supervisors can initial to indicate that the various card audits took place.</p> <p>End Date: June 30, 2022</p> |