

**Department of Health
State of Hawaii**

Financial Statements
June 30, 2021
Together with Independent Auditor's Report

Submitted by

**THE AUDITOR
STATE OF HAWAII**



A Hawaii Limited Liability Partnership

March 16, 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 Health, the State of Hawaii (Department) 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) and 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 opinions on the fairness of the presentation of the Department'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 on the fairness of the presentation of the Department's basic financial statements, including whether the schedule of expenditures of federal awards is fairly stated in relation to the financial statements.
2. To consider the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements.
3. To perform tests on the Department's compliance with laws, regulations, contracts, and grants, including applicable provisions of the Hawaii Public Procurement Code (Chapter 103D and 103F, Hawaii Revised Statutes), that could have a direct and material effect on the determination of financial statement amounts.
4. To consider the Department's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinions on compliance and to test and report on internal control over compliance.
5. To provide a basis for opinions on the Department's compliance with applicable laws, regulations, contracts, and grants that could have a direct and material effect on each major federal program.

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 Department for the fiscal year ended June 30, 2021.

ORGANIZATION OF THE REPORT

This report is presented in six parts as follows:

- Part I – The basic financial statements and related notes to the financial statements of the Department as of and for the fiscal year ended June 30, 2021, and our opinion on the basic financial statements.
- Part II – Our report on internal control over financial reporting and on compliance and other matters.
- Part III – Our report on compliance for each major program and internal control over compliance.
- Part IV – The schedule of findings and questioned costs.
- Part V – The summary schedule of prior audit findings.
- Part VI – Corrective action plan as provided by the Department.

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

Sincerely,



Wilcox Choy
Partner

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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, the business-type activities, each major fund, and the aggregate remaining fund information of the Department of Health, State of Hawaii (Department), as of and for the fiscal year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Department'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 Department's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Department as of June 30, 2021, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparisons for each major fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

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

As discussed in Note 1 to the basic financial statements, in 2021 the Department adopted Government Accounting Standards Board (GASB) Statement No. 84 (GASB 84), *Fiduciary Activities*. As a result of adopting this standard, the Department has restated beginning net position for the fiscal year ended June 30, 2020. Our opinions are not modified with respect to this matter.

As discussed in Note 10 to the basic financial statements, the beginning net position for the fiscal year ended June 30, 2020 has been restated to correct a misstatement. Our opinions are not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 10 through 21 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2022 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 the Department'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 Department's internal control over financial reporting and compliance.

KMH LLP

KMH LLP

Honolulu, Hawaii
March 16, 2022

Department of Health State of Hawaii

Management Discussion and Analysis
June 30, 2021

This Management's Discussion and Analysis (MD&A) presents a narrative overview and analysis of the financial activities and performance of the Department of Health, State of Hawaii (the Department) during the fiscal year that ended on June 30, 2021. Please read it in conjunction with the Department's financial statements and the related notes to the basic financial statements (which follow this section). The following is a brief description of the contents of those three sections:

Overview of the Basic Financial Statements

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

Government-Wide Financial Statements

The government-wide financial statements provide information about the Department's overall financial position and results of operations. These statements, which are presented on an accrual basis of accounting, consists of the statement of net position and the statement of activities.

The government-wide statements report information about the Department as a whole using accounting methods similar to those used by private sector companies. The statement of net position provides both short-term and long-term information about the Department's financial position, which assists in assessing the Department's economic condition at the end of the fiscal year. All of the current year revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. The government-wide financial statements include two statements:

- The *Statement of Net Position* presents all of the Department's assets, deferred outflows, liabilities and deferred inflows, with the difference reported as "net position." Over time, increases and decreases in the Department's net position may serve as a useful indicator of whether the financial position of the Department is improving or deteriorating.
- The *Statement of Activities* presents information showing how the Department's net position changed during the most recent fiscal year.

The government-wide financial statements of the Department are further divided into two categories:

- *Governmental activities* - The activities in this section are primarily supported by State of Hawaii appropriations, funds from the tobacco settlement, beverage container deposit administrative fees, federal grants, taxes, and other fees.
- *Business-type activities* - These functions normally are intended to recover all or a significant portion of their costs through user's fees and charges to external users. These activities include the Department's two revolving loan funds.

Department of Health State of Hawaii

Management Discussion and Analysis
June 30, 2021

Fund Financial Statements

The fund financial statements include the Department's: (1) governmental funds, for which activities are funded primarily from appropriations from the State of Hawaii, beverage container deposit program collections, and federal grants and (2) proprietary funds, which consist of revolving loan funds and are reported similar to business activities. The governmental funds are presented on the modified accrual basis of accounting. The proprietary funds are presented on the accrual basis of accounting.

The fund financial statements provide more detailed information about the Department's most significant funds and not the Department as a whole. In these statements, the financial activities of the Department are recorded in individual funds. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Department uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Funds are reported as a major fund or a non-major (other) fund. The Governmental Accounting Standards Board (GASB) issued Statement 34, *Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments*, which sets forth the minimum criteria for the determination of major funds. The non-major funds are combined in a column in the fund financial statements.

The fund financial statements also include the budgetary comparison statements, which include reconciliations for the general fund and deposit beverage container deposit special fund, comparing the excess of revenues over expenditures presented on a budgetary basis to the excess (deficiency) of revenues over expenditures presented in conformity with U.S. generally accepted accounting principles (GAAP) as presented in the governmental fund financial statements.

To reiterate, the Department has three types of funds:

- *Governmental funds* - Governmental funds are used to account for essentially the same functions reported in the governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of expendable resources as well as on the balances of expendable resources available at the end of the fiscal year.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. Both the governmental fund balance sheet and statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate comparison between governmental funds and governmental activities in the government-wide financial statements.

Department of Health State of Hawaii

Management Discussion and Analysis
June 30, 2021

- *Proprietary funds* - Proprietary funds are used to report activities that operate more like those of commercial enterprises. They are known as enterprise funds because they charge fees for services provided to outsiders. They are used to report the same functions presented as business-type activities in the government-wide financial statements. The Department uses enterprise funds to account for the operations of its two revolving loan funds each of which are considered to be major funds of the Department.
- *Fiduciary funds* - The fiduciary funds account for net position held in a trustee or agent capacity for others. These funds are not reflected in the government-wide financial statements since these resources are not available to support the Department's programs.

Notes to the Basic Financial Statements

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

Government-wide Financial Highlights

The Department's total net position increased from \$1,169.2 million (as restated) as of June 30, 2020 to \$1,283.4 million as of June 30, 2021, or by approximately \$114.2 million. The total increase in net position was attributed to increases in the Department's governmental activities net position of \$84.3 million and business-type activities' net position of \$29.9 million during the year.

The Department's governmental activities reported an aggregate increase in net position of approximately \$84.3 million during the year totaling \$480.3 million at June 30, 2021. Note that this is based on the net position at June 30, 2020 of \$395.9 million (as restated).

The Department's proprietary funds, consisting of two revolving loan funds, reported an increase in net position of \$29.9 million for fiscal year (FY) 2021. Total net position was \$773.2 million at June 30, 2020 compared to \$803.1 million at June 30, 2021.

Department of Health State of Hawaii

Management Discussion and Analysis
June 30, 2021

Government-Wide Financial Analysis

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

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

	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
Current assets	\$ 375,494	\$ 423,774	\$ 164,515	\$ 173,158	\$ 540,009	\$ 596,932
Capital assets	248,185	107,693	795	1,154	248,980	108,847
Loans receivable, noncurrent	-	-	651,560	612,023	651,560	612,023
Total assets	623,679	531,467	816,870	786,335	1,440,549	1,317,802
Deferred outflows of resources	-	-	1,760	1,996	1,760	1,996
Current liabilities	117,586	120,969	826	877	118,412	121,846
Long term liabilities	25,823	21,796	13,790	13,648	39,613	35,444
Total liabilities	143,409	142,765	14,616	14,525	158,025	157,290
Deferred inflows of resources	-	-	862	588	862	588
Net position						
Net investment in capital assets	248,185	107,693	795	1,154	248,980	108,847
Restricted	41,854	72,781	802,357	772,064	844,211	844,845
Unrestricted	190,231	208,228	-	-	190,231	208,228
Total net position	\$ 480,270	\$ 388,702	\$ 803,152	\$ 773,218	\$ 1,283,422	\$ 1,161,920

As noted earlier, changes in net position may serve over time as a useful indicator of the Department's financial position. As of June 30, 2021, the Department's total net position was approximately \$1,283.4 million.

Department of Health State of Hawaii

Management Discussion and Analysis June 30, 2021

At June 30, 2021, in addition to equity in cash and cash equivalents in the state treasury approximating \$441.0 million, the Department had total loans receivable from county governments in the amount of \$705.0 million arising from its two revolving loan funds. The Department had total liabilities of \$158.0 million at June 30, 2021 of which \$15.2 million relates to accrued wages and employee benefits payable. Approximately \$63.1 million in liabilities relate to vouchers and contracts payable. At June 30, 2021, restricted net position was \$844.2 million. The restrictions arise from legal and contractual agreements.

Condensed Statement of Activities (\$000) June 30,

	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
Revenue:						
Program revenues:						
Charges for services	\$ 40,038	\$ 33,349	\$ 7,677	\$ 6,512	\$ 47,715	\$ 39,861
Operating grants and contributions	146,628	126,549	24,671	27,602	171,299	154,151
General revenues:						
State appropriated funds	490,235	510,858	-	-	490,235	510,858
Non-imposed fringe benefits	80,183	88,542	-	-	80,183	88,542
Hawaii tobacco settlement special fund	37,111	34,959	-	-	37,111	34,959
Environmental fees and taxes	49,634	51,368	-	-	49,634	51,368
Total revenues	<u>843,829</u>	<u>845,625</u>	<u>32,348</u>	<u>34,114</u>	<u>876,177</u>	<u>879,739</u>
Expenditures:						
General administration	74,660	50,359	-	-	74,660	50,359
Environmental health administration	120,904	80,996	7,122	11,204	128,026	92,200
Behavioral health services administration	375,180	374,840	-	-	375,180	374,840
Health resources administration	336,094	291,584	-	-	336,094	291,584
Total expenditures	<u>906,838</u>	<u>797,779</u>	<u>7,122</u>	<u>11,204</u>	<u>913,960</u>	<u>808,983</u>
(Deficiency) excess before transfers	(63,009)	47,846	25,226	22,910	(37,783)	70,756
Transfers	<u>147,340</u>	<u>(37,093)</u>	<u>4,708</u>	<u>4,708</u>	<u>152,048</u>	<u>(32,385)</u>
Change in net position	84,331	10,753	29,934	27,618	114,265	38,371
Net position:						
Restatement Adjustments	7,237	-	-	-	7,237	-
Beginning of year	<u>388,702</u>	<u>377,949</u>	<u>773,218</u>	<u>745,600</u>	<u>1,161,920</u>	<u>1,123,549</u>
End of year	<u>\$ 480,270</u>	<u>\$ 388,702</u>	<u>\$ 803,152</u>	<u>\$ 773,218</u>	<u>\$1,283,422</u>	<u>\$1,161,920</u>

Department of Health State of Hawaii

Management Discussion and Analysis
June 30, 2021

Governmental activities increased the Department's net position by \$84.3 million in FY 2021, which was a 21.3 percent increase from FY 2020 (as restated). The overall increase in governmental activities is the result of increase in transfers offset by increase in expenditures. Transfers increased by \$184.4 million and expenditures increased by \$109.1 million.

Revenues of the Department's business-type activities, which decreased by \$1.8 million from 2020, consist of the Department's environmental loan programs, one for water pollution control and the other for drinking water treatment. These revenues were generated from charges for services, program investment income, and federal assistance program funds as well as state matching funds. Charges for services consist primarily of administration loan fees and interest income on loans related to the Department's two revolving loan programs. The majority of the programs' investment income is from the Department's participation in the State Treasury Investment Pool System.

For the fiscal year ended June 30, 2021, business-type activities increased the Department's net position by \$29.9 million to \$803.1 million as compared to the fiscal year ended June 30, 2020.

Total government-wide expenditures for FY 2021 were \$914.0 million of which \$906.8 million was for governmental activities. As compared to FY 2020, total government-wide expenditures were \$809.0 million of which \$797.8 million was for governmental activities. Overall, the Department is organized into four major administrations.

The Department's Behavioral Health Services Administration expended 41.0 percent or \$375.2 million of departmental funds with an increase of \$0.3 million compared to FY 2020. This administration is responsible for providing available and coordinated mental health and substance abuse treatment and prevention programs. Programs within this administration are:

- Adult Mental Health Division (AMHD) that includes the Hawaii State Hospital and Community Mental Health Center Branches;
- Child and Adolescent Mental Health Division which includes seven Family Guidance Centers and the Family Court Liaison Branches;
- Alcohol and Drug Abuse Division which plans for and purchases substance abuse prevention and treatment services for adolescents and adults; and
- Developmental Disabilities Division that services disabled clients in Hawaii while addressing the conditions of the Makin Settlement.

Department of Health State of Hawaii

Management Discussion and Analysis
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The Department's Health Resources Administration expended approximately 36.8 percent of Department funds. FY 2021 expenses for this Administration increased by \$44.5 million compared to FY 2020. Major programs in this administration include:

- Chronic Disease Prevention & Health Promotion Division strives to promote wellness and improve the quality and years of life for Hawaii's people through effective prevention, detection and management of chronic diseases;
- Communicable Disease and Public Health Nursing Division which strives to reduce morbidity and mortality from communicable diseases in Hawaii, to improve the health of individuals and communities, and to support the Medical Marijuana Registry program;
- Disease Outbreak Control Division which provides immunization and disease investigation services as well as provides emergency response to disease outbreaks and potential acts of bioterrorism;
- Emergency Medical Services and Injury Prevention System Branch that includes the State's mandated Emergency Medical Services, which operates the State's emergency ambulance service in the four major counties, and the injury prevention program;
- Family Health Services Division that administers the State's Early Intervention program for children zero to three in compliance with the Federal Individual with Disabilities Education Act, Part C as well as serving children, youth and families through its three branches, namely, Children with Special Health Needs, Maternal and Child Health, and Women, Infants and Children; and
- Office of Health Care Assurance (OHCA) which manages the state licensing and Federal certification of medical and health care facilities, agencies, and services provided throughout the State in order to ensure acceptable standards of care provided and to ensure compliance with State and Federal requirements. OHCA is also responsible for the rollout and management of the Medical Marijuana Dispensaries.

The Department's Environmental Health Administration is responsible for the management of the clean air, clean water, solid and hazardous waste, public health sanitation, vector control, and purity of food and drugs. It expended approximately 14.0 percent of the departmental funds with an increase of \$35.8 million expended versus FY 2020 on a government-wide basis. This administration also manages both the Water Pollution Control Revolving and the Drinking Water Treatment Revolving Loan Funds.

Finally, the Department's General Administration provides the overall leadership and oversight for the Department. It includes administrative support staff, three district health offices, and six administratively attached agencies. This administration expended approximately 8.2 percent of the departmental funds.

Department of Health State of Hawaii

Management Discussion and Analysis
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Governmental Funds Financial Analysis

The following table presents revenues and expenditures of the governmental funds for FY2021 and FY2020 (\$000):

	<u>2021</u>	<u>2020</u>
Revenues:		
State general fund allotments	\$ 490,235	\$ 510,859
Intergovernmental	142,451	118,257
Non-imposed fringe benefits	80,183	88,542
Taxes, fees, fines and other	69,982	63,192
Hawaii tobacco settlement special fund	37,111	34,959
Deposit beverage container deposit special fund	25,615	26,786
Investment income	1,059	4,537
Total revenues	<u>846,636</u>	<u>847,132</u>
Expenditures:		
General administration	73,605	47,342
Environmental health	119,311	81,473
Behavioral health services	374,913	373,348
Health resources	332,761	289,487
Total expenditures	<u>900,590</u>	<u>791,650</u>
(Deficiency) excess of revenues over expenditures before transfers	<u>\$ (53,954)</u>	<u>\$ 55,482</u>

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

During the fiscal year ended June 30, 2021, general fund revenues were \$490.2 million, including \$80.2 million for fringe benefits paid directly from the State general fund. General fund expenditures were \$73.6 million.

In FY 2021, the DBCDSF earned revenues of \$25.6 million from beverage container deposit administrative fees and unredeemed containers income. Of this amount received, \$24.3 million in expenditures were paid to redemption centers or utilized to fund the program. The fund collected \$47.4 million in deposits from distributors and repaid \$29.9 million in deposits to consumers during FY 2021.

Department of Health State of Hawaii

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

The WPCRF accounts for federal and state funds used to provide loans to county governments for the construction of wastewater treatment facilities and the repayment of principal, interest and fees from such loans and investment of such monies. During FY 2021, WPCRF received \$12.3 million and \$2.5 million of federal and state funds, respectively. WPCRF also disbursed \$65.1 million in loan proceeds and collected \$37.0 million in principal repayments in 2021. As compared to 2020, the fund collected \$8.9 million and \$2.5 million in federal and state contributions, respectively, disbursed \$130.8 million in loan proceeds, and collected \$32.0 million in principal payments.

The DWTRLF accounts for federal and state funds used to provide loans and other types of financial assistance to public water systems for drinking water infrastructure and the repayment of principal interest and fees from such loans and the investment of such monies. During FY 2021, DWTRLF received \$11.6 million and \$2.2 million of federal and state funds, respectively. DWTRLF also disbursed \$30.5 million in loan proceeds and collected \$13.2 million in principal repayments in 2021. As compared to 2020, the DWTRLF collected \$14.8 million and \$2.2 million in federal and state contributions, respectively, disbursed \$28.3 million in loan proceeds, and collected \$11.4 million in principal payments.

Department of Health State of Hawaii

Management Discussion and Analysis
June 30, 2021

Budgetary Analysis

The following budget information relates to the general fund and deposit beverage container deposit special fund for 2021:

	Budgeted Amounts (\$000)		Actual on a Budgetary
	Original	Final	Basis (\$000)
General fund			
Revenues	\$ 504,637	\$ 512,191	\$ 487,221
Expenditures			
General administration	43,248	45,791	42,771
Environmental health	24,577	25,273	21,771
Behavioral health	297,071	300,150	289,005
Health resources	139,741	140,978	133,674
Deposit beverage container deposit special fund			
Revenues	71,207	71,266	54,859
Expenditures	71,207	71,266	67,360

The deposit beverage container program recognized revenues on a budgetary basis of \$54.9 million, which is based on the actual number of containers sold. In fiscal year 2020, there were 943.9 million containers sold. The amount of containers sold increased to 955.1 million in fiscal year 2021.

Department of Health State of Hawaii

Management Discussion and Analysis
June 30, 2021

Capital Assets

As of June 30, 2021, the Department's governmental activities had invested approximately \$248.2 million (net of accumulated depreciation) in a broad range of capital assets. See Note 4 to the Department's basic financial statements for a description of capital assets activities for the fiscal year ended June 30, 2021.

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

	<u>2021</u>	<u>2020</u>
Land	\$ 1,018	\$ 1,018
Land improvements	3,305	3,305
Buildings and building improvements	381,033	235,424
Furniture and equipment	<u>31,819</u>	<u>30,047</u>
Total	417,175	269,794
Accumulated depreciation	<u>168,990</u>	<u>162,101</u>
Total capital assets, net	<u><u>\$ 248,185</u></u>	<u><u>\$ 107,693</u></u>

Currently Known Facts, Decisions, or Conditions

On March 4, 2020, in response to a new disease commonly known as COVID-19 caused by a novel strain of coronavirus, Hawaii Governor David Y. Ige proclaimed the spread of COVID-19 in Hawaii to be a disaster and declared a state of emergency in Hawaii. Several emergency proclamations have been issued. COVID-19 in Hawaii continues to have an impact.

In FY 2021, AMHD serviced 7,992 clients as compared to the 7,990 clients serviced in FY 2020. AMHD's Crisis Line of Hawaii (formerly known as Access Line) continues to provide short term confidential counseling, information about available help, and mobile support services in a crisis. As of July 1, 2020, the Crisis Line of Hawaii has been consolidated with the Behavioral Health Administration's Hawaii CARES program.

In the developmental disabilities program, the number of clients increased by 61 clients in FY 2021 over 2020. In FY 2021, the program served 3,025 clients in the home and community-based waiver program as compared to 2,964 clients served in FY 2020.

Department of Health State of Hawaii

Management Discussion and Analysis
June 30, 2021

Further, the Federal Medical Assistance Percentage (FMAP) decreased from 53.92 percent to 53.47 percent for the period October 2019 to September 2020. The FMAP decreased from 53.47 percent to 53.02 percent effective for the period October 2020 to September 2021. Due to the COVID-19 pandemic, the Families First Coronavirus Response Act provided an additional FMAP of 6.2 percent increase effective January 1, 2020 until the end of the quarter in which the Public Health Emergency period ends.

And lastly, the WPCRF executed a total of two loan agreements for \$60.7 million during FY 2021. DWTRLF executed a total of five loan agreements for \$30.2 million during FY 2021.

**Department of Health
State of Hawaii**

Statement of Net Position
June 30, 2021

	Governmental Activities	Business-Type Activities	Total
<u>Assets and Deferred Outflows of Resources</u>			
Current Assets:			
Equity in Cash and Cash Equivalents and Investments in State Treasury	\$ 332,815,777	\$ 108,167,261	\$ 440,983,038
Receivables:			
Due from State Treasury	-	679,844	679,844
Due from other State agency	4,467,510	-	4,467,510
Accrued interest and loan fees	61,425	2,013,836	2,075,261
Accounts receivable	9,464,807	9,381	9,474,188
Due from Federal government	12,003,147	220,401	12,223,548
Tobacco settlement receivable	16,681,250	-	16,681,250
Current maturities of loans receivable	-	53,425,077	53,425,077
Total current assets	375,493,916	164,515,800	540,009,716
Loans Receivable, net of current maturities	-	651,559,555	651,559,555
Capital Assets, net of accumulated depreciation	248,185,063	794,804	248,979,867
Total assets	623,678,979	816,870,159	1,440,549,138
Deferred Outflows of Resources	-	1,759,911	1,759,911
Total assets and deferred outflows of resources	<u>\$ 623,678,979</u>	<u>\$ 818,630,070</u>	<u>\$ 1,442,309,049</u>
<u>Liabilities, Deferred Inflows of Resources, and Net Position</u>			
Current Liabilities:			
Vouchers payable	\$ 62,604,443	\$ 449,892	\$ 63,054,335
Accrued wages and employee benefits payable	14,921,934	250,884	15,172,818
Unearned revenue	7,946,940	-	7,946,940
Accrued vacation, current portion	10,135,646	125,266	10,260,912
Workers' compensation liability	973,977	-	973,977
Due to other State agencies	16,887,535	-	16,887,535
Beverage container deposits	4,115,173	-	4,115,173
Total current liabilities	117,585,648	826,042	118,411,690
Accrued Vacation, net of current portion	25,823,795	366,124	26,189,919
Net Pension Liability	-	7,255,467	7,255,467
Net Other Postemployment Benefits Liability	-	6,168,020	6,168,020
Total liabilities	<u>143,409,443</u>	<u>14,615,653</u>	<u>158,025,096</u>
Deferred Inflows of Resources	-	862,173	862,173
Net Position:			
Net investment in capital assets	248,185,063	794,804	248,979,867
Restricted for:			
Loans	-	802,357,440	802,357,440
Trust fund programs	9,659,890	-	9,659,890
Medicaid programs	32,193,284	-	32,193,284
Unrestricted	190,231,299	-	190,231,299
Total net position	<u>480,269,536</u>	<u>803,152,244</u>	<u>1,283,421,780</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 623,678,979</u>	<u>\$ 818,630,070</u>	<u>\$ 1,442,309,049</u>

See accompanying notes to the basic financial statements.

Department of Health
State of Hawaii

Statement of Activities
For the Fiscal Year Ended June 30, 2021

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:						
General administration	\$ 74,659,836	\$ 1,364,284	\$ 18,169,298	\$ (55,126,254)	\$ -	\$ (55,126,254)
Environmental health administration	120,903,616	9,414,355	12,675,606	(98,813,655)	-	(98,813,655)
Behavioral health services administration	375,180,051	7,165,598	25,455,753	(342,558,700)	-	(342,558,700)
Health resources administration	336,094,525	22,094,087	90,326,933	(223,673,505)	-	(223,673,505)
Total governmental activities	906,838,028	40,038,324	146,627,590	(720,172,114)	-	(720,172,114)
Business-type Activities --						
Environmental Health Loan Programs	7,122,076	7,677,183	24,670,845	-	25,225,952	25,225,952
Total Department	<u>\$ 913,960,104</u>	<u>\$ 47,715,507</u>	<u>\$ 171,298,435</u>	<u>(720,172,114)</u>	<u>25,225,952</u>	<u>(694,946,162)</u>
General Revenues:						
State general fund allotments, net				490,235,174	-	490,235,174
Nonimposed employee fringe benefits				80,182,825	-	80,182,825
Hawaii tobacco settlement special fund				37,111,342	-	37,111,342
Tobacco tax				21,949,708	-	21,949,708
Deposit beverage container fee				25,947,241	-	25,947,241
Environmental response tax				1,116,240	-	1,116,240
Advance glass disposal fee				620,755	-	620,755
Total general revenues				657,163,285	-	657,163,285
Transfers				147,340,114	4,708,000	152,048,114
Change in net position				84,331,285	29,933,952	114,265,237
Net Position at July 1, 2020				388,701,682	773,218,292	1,161,919,974
Restatement Adjustments				7,236,569	-	7,236,569
Net Position at July 1, 2020, as restated				395,938,251	773,218,292	1,169,156,543
Net Position at June 30, 2021				<u>\$ 480,269,536</u>	<u>\$ 803,152,244</u>	<u>\$ 1,283,421,780</u>

See accompanying notes to the basic financial statements.

**Department of Health
State of Hawaii**

Balance Sheet – Governmental Funds
June 30, 2021

	General	Deposit Beverage Container Deposit	Other Governmental Funds	Total Governmental Funds
Assets:				
Equity in cash and cash equivalents and investments in State Treasury	\$ 110,691,835	\$ 51,450,663	\$ 170,673,279	\$ 332,815,777
Due from other State agency	1,357,842	-	3,109,668	4,467,510
Accrued interest receivable	-	12,812	48,613	61,425
Accounts receivable	-	9,464,807	-	9,464,807
Due from Federal government	-	-	12,003,147	12,003,147
Total assets	<u>\$ 112,049,677</u>	<u>\$ 60,928,282</u>	<u>\$ 185,834,707</u>	<u>\$ 358,812,666</u>
Liabilities and Fund Balances				
Liabilities:				
Vouchers and contracts payable	\$ 37,356,862	\$ 4,579,395	\$ 20,668,186	\$ 62,604,443
Accrued wages and employee benefits payable	11,749,340	57,645	3,114,949	14,921,934
Unearned revenue	1,357,842	355,680	11,000,738	12,714,260
Due to other State agencies	-	-	206,285	206,285
Beverage container deposits	-	4,115,173	-	4,115,173
Total liabilities	<u>50,464,044</u>	<u>9,107,893</u>	<u>34,990,158</u>	<u>94,562,095</u>
Fund Balances:				
Restricted:				
Medicaid programs	-	-	32,193,284	32,193,284
Trust fund programs	-	-	9,659,890	9,659,890
Committed:				
Behavioral health services	-	-	9,207,786	9,207,786
Environmental health	-	-	30,488,547	30,488,547
General administration	-	-	5,228,607	5,228,607
Health resources	-	-	53,003,204	53,003,204
Capital projects activities	-	-	8,001,349	8,001,349
Deposit beverage container program	-	51,820,389	-	51,820,389
Tobacco settlement program	-	-	3,061,882	3,061,882
Assigned:				
Behavioral health services	18,478,004	-	-	18,478,004
Environmental health	1,211,641	-	-	1,211,641
General administration	26,528,831	-	-	26,528,831
Health resources	15,367,157	-	-	15,367,157
Unassigned	-	-	-	-
Total fund balances	<u>61,585,633</u>	<u>51,820,389</u>	<u>150,844,549</u>	<u>264,250,571</u>
Total liabilities and fund balances	<u>\$ 112,049,677</u>	<u>\$ 60,928,282</u>	<u>\$ 185,834,707</u>	<u>\$ 358,812,666</u>

See accompanying notes to the basic financial statements.

Department of Health State of Hawaii

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2021

Total Fund Balances - Governmental Funds	\$ 264,250,571
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds	248,185,063
Compensated absences reported in the statement of net position do not require the use of current financial resources and therefore are not reported as liabilities in the governmental funds	(35,959,441)
Workers' compensation liability reported in the statement of net position does not require the use of current financial resources and therefore is not reported as a liability in the governmental funds	(973,977)
Tobacco settlement receivables not collected within 60 days and not available for current financial resources are therefore not reported as a receivable in the governmental funds	16,681,250
Due to other state agencies related to tobacco settlement receivables reported in the statement of net position does not require the use of current financial resources and therefore is not reported as a liability in the governmental funds	(16,681,250)
Other financing sources not collected within 60 days and therefore not available for current financial resources are reported as unavailable revenues in the governmental funds	<u>4,767,320</u>
Net Position of Governmental Activities	<u><u>\$ 480,269,536</u></u>

See accompanying notes to the basic financial statements.

**Department of Health
State of Hawaii**

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
For the Fiscal Year Ended June 30, 2021

	General	Deposit Beverage Container Deposit	Other Governmental Funds	Total Governmental Funds
Revenues:				
State-alloted appropriations	\$ 485,777,174	\$ -	\$ 4,458,000	\$ 490,235,174
Intergovernmental	-	-	142,451,397	142,451,397
Nonimposed employee fringe benefits	80,034,617	6,945	141,263	80,182,825
Taxes, fees, fines and other	-	-	69,981,631	69,981,631
Investment income	-	202,017	856,656	1,058,673
Hawaii tobacco settlement	-	-	37,111,342	37,111,342
Deposit beverage container deposit	-	25,615,472	-	25,615,472
Total revenues	565,811,791	25,824,434	255,000,289	846,636,514
Expenditures:				
General administration	38,110,087	-	35,495,088	73,605,175
Environmental health	33,257,621	24,333,556	61,719,973	119,311,150
Behavioral health services	327,735,611	-	47,176,977	374,912,588
Health resources	153,636,759	-	179,124,573	332,761,332
Total expenditures	552,740,078	24,333,556	323,516,611	900,590,245
Excess (deficiency) of revenues over (under) expenditures	13,071,713	1,490,878	(68,516,322)	(53,953,731)
Other Financing Sources (Uses):				
Transfers in	-	-	91,702,569	91,702,569
Transfers out	(4,085,204)	-	(88,647,478)	(92,732,682)
Total other financing sources (uses)	(4,085,204)	-	3,055,091	(1,030,113)
Net change in fund balances	8,986,509	1,490,878	(65,461,231)	(54,983,844)
Fund Balances at July 1, 2020	52,599,124	50,329,511	209,069,211	311,997,846
Restatement Adjustments	-	-	7,236,569	7,236,569
Fund Balances at July 1, 2020, as restated	52,599,124	50,329,511	216,305,780	319,234,415
Fund Balances at June 30, 2021	\$ 61,585,633	\$ 51,820,389	\$ 150,844,549	\$ 264,250,571

See accompanying notes to the basic financial statements.

Department of Health State of Hawaii

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances to the Statement of Activities
For the Fiscal Year Ended June 30, 2021

Net Change in Fund Balances - Total Governmental Funds	\$ (54,983,844)
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:	
Governmental funds report capital outlays as expenditures, however, in the statement of activities, the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.	(5,039,962)
Transfers in related to capital assets are not financial resources and, therefore, are not reported in the governmental funds.	145,532,216
Increase in compensated absences reported in the statement of activities do not require the use of current financial resources and therefore not reported as expenditures in the governmental funds.	(4,295,494)
Increase in workers' compensation liability reported in the statement of activities do not require the use of current financial resources and therefore is not reported as expenditures in the governmental funds.	(51,411)
Other financing sources reported on the statement of activities that do not provide or use current financial resources and are reported as unavailable revenues in the governmental funds, net of prior year transfers recorded in the current period.	<u>3,169,780</u>
Change in Net Position - Governmental Activities	<u><u>\$ 84,331,285</u></u>

See accompanying notes to the basic financial statements.

Department of Health State of Hawaii

General Fund

Statement of Revenues and Expenditures - Budget and Actual

For the Fiscal Year Ended June 30, 2021

	Original	Final	Actual on Budgetary Basis	Variance Favorable (Unfavorable)
Revenues --				
State allotments	\$ 504,637,411	\$ 512,191,357	\$ 487,220,895	\$ (24,970,462)
Expenditures:				
General administration	43,248,065	45,790,786	42,770,672	3,020,114
Environmental health	24,577,277	25,273,188	21,771,471	3,501,717
Behavioral health services	297,070,597	300,149,601	289,005,186	11,144,415
Health resources	139,741,472	140,977,782	133,673,566	7,304,216
	<u>504,637,411</u>	<u>512,191,357</u>	<u>487,220,895</u>	<u>24,970,462</u>
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to the basic financial statements.

**Department of Health
State of Hawaii**

Deposit Beverage Container Deposit Fund
Statement of Revenues and Expenditures - Budget and Actual
For the Fiscal Year Ended June 30, 2021

	<u>Original</u>	<u>Final</u>	<u>Actual on Budgetary Basis</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues --				
Deposit beverage container deposit	<u>\$ 71,207,053</u>	<u>\$ 71,266,093</u>	<u>\$ 54,858,670</u>	<u>\$ (16,407,423)</u>
Expenditures --				
Environmental health --				
Deposit beverage container deposit	<u>71,207,053</u>	<u>71,266,093</u>	<u>67,359,569</u>	<u>3,906,524</u>
Deficiency of revenues under expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (12,500,899)</u>	<u>\$ (20,313,947)</u>

See accompanying notes to the basic financial statements.

**Department of Health
State of Hawaii**

Statement of Net Position - Proprietary Funds
June 30, 2021

	Business-type Activities - Enterprise Fund		
	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Loan Fund	Total
Assets and Deferred Outflows of Resources:			
Current assets:			
Equity in cash and cash equivalents and investments in State Treasury	\$ 87,143,445	\$ 21,023,816	\$ 108,167,261
Loan fees receivable	774,759	686,242	1,461,001
Accounts receivable	9,381	-	9,381
Accrued interest receivable	363,710	189,125	552,835
Due from Federal Government	-	220,401	220,401
Due from State Treasury	543,990	135,854	679,844
Current portion of loans receivable	38,993,415	14,431,662	53,425,077
Total current assets	127,828,700	36,687,100	164,515,800
Loans receivable, net of current portion	446,158,659	205,400,896	651,559,555
Capital assets, net of accumulated depreciation	316,167	478,637	794,804
Total assets	574,303,526	242,566,633	816,870,159
Deferred outflows of resources	1,146,177	613,734	1,759,911
Total assets and deferred outflows of resources	<u>\$ 575,449,703</u>	<u>\$ 243,180,367</u>	<u>\$ 818,630,070</u>
Liabilities, Deferred Inflows of Resources, and Net Position:			
Current liabilities--			
Accounts payable and other accrued liabilities	\$ 237,700	\$ 588,342	\$ 826,042
Accrued vacation, net of current portion	223,536	142,588	366,124
Net pension liability	4,396,892	2,858,575	7,255,467
Net other postemployment benefits liability	3,514,627	2,653,393	6,168,020
Total liabilities	8,372,755	6,242,898	14,615,653
Deferred inflows of resources	286,981	575,192	862,173
Net Position:			
Net investment in capital assets	316,167	478,637	794,804
Restricted - expendable	566,473,800	235,883,640	802,357,440
Total net position	566,789,967	236,362,277	803,152,244
Total liabilities, deferred inflows of resources, and net position	<u>\$ 575,449,703</u>	<u>\$ 243,180,367</u>	<u>\$ 818,630,070</u>

See accompanying notes to the basic financial statements.

**Department of Health
State of Hawaii**

Statement of Revenues, Expenses and Changes in Net Position - Proprietary Funds
For the Fiscal Year Ended June 30, 2021

	Business-type Activities-Enterprise Fund		
	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Loan Fund	Total
Operating Revenues:			
Interest income from loans	\$ 1,373,751	\$ 627,172	\$ 2,000,923
Administrative loan fees	3,190,010	2,486,250	5,676,260
Total revenues	4,563,761	3,113,422	7,677,183
Expenses:			
Administrative	2,938,412	1,657,606	4,596,018
State program management	-	687,288	687,288
Water protection	-	831,397	831,397
Principal forgiveness for SRF	-	949,373	949,373
Small system technical assistance	-	58,000	58,000
Total expenses	2,938,412	4,183,664	7,122,076
Operating income (loss)	1,625,349	(1,070,242)	555,107
Nonoperating Revenues and Expenses:			
State contributions	2,487,000	2,221,000	4,708,000
Federal contributions	12,306,000	11,596,435	23,902,435
Other interest income	582,909	149,123	732,032
Other income	22,584	13,794	36,378
Total nonoperating revenues and expenses	15,398,493	13,980,352	29,378,845
Change in net position	17,023,842	12,910,110	29,933,952
Net Position:			
Beginning of year	549,766,125	223,452,167	773,218,292
End of year	\$ 566,789,967	\$ 236,362,277	\$ 803,152,244

See accompanying notes to the basic financial statements.

**Department of Health
State of Hawaii**

Statement of Cash Flows - Proprietary Funds
For the Fiscal Year Ended June 30, 2021

	Business-type Activities - Enterprise Fund		
	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Loan Fund	Total
Cash Flows from Operating Activities:			
Payments to employees	\$ (2,238,463)	\$ (1,515,760)	\$ (3,754,223)
Payments to vendors	(117,632)	(1,317,649)	(1,435,281)
Net cash used in operating activities	<u>(2,356,095)</u>	<u>(2,833,409)</u>	<u>(5,189,504)</u>
Cash Flows from Noncapital Financing Activities:			
State contributions	2,487,000	2,221,000	4,708,000
Federal contributions	12,306,000	11,845,933	24,151,933
Net cash provided by noncapital financing activities	<u>14,793,000</u>	<u>14,066,933</u>	<u>28,859,933</u>
Cash Flows from Investing Activities:			
Principal repayments on loans	37,033,549	13,246,781	50,280,330
Disbursement of loan proceeds	(65,079,277)	(30,464,363)	(95,543,640)
Interest income from loans	1,357,823	557,439	1,915,262
Administrative loan fees	3,064,471	2,443,759	5,508,230
Other interest income	572,034	157,375	729,409
Net cash used in investing activities	<u>(23,051,400)</u>	<u>(14,059,009)</u>	<u>(37,110,409)</u>
Net decrease in cash	(10,614,495)	(2,825,485)	(13,439,980)
Equity in Cash and Cash Equivalents and Investments in State Treasury:			
Beginning of year	<u>97,757,940</u>	<u>23,849,301</u>	<u>121,607,241</u>
End of year	<u>\$ 87,143,445</u>	<u>\$ 21,023,816</u>	<u>\$ 108,167,261</u>
Reconciliation of Operating Income (Loss) to Net Cash Used in Operating Activities:			
Operating income (loss)	\$ 1,625,349	\$ (1,070,242)	\$ 555,107
Adjustments to reconcile operating income (loss) to net cash used in operating activities:			
Depreciation expense	137,524	221,500	359,024
Principal forgiveness for SRF	-	949,373	949,373
Interest income from loans	(1,373,751)	(627,172)	(2,000,923)
Administrative loan fees	(3,190,010)	(2,486,250)	(5,676,260)
Non-imposed fringe benefits	22,584	13,794	36,378
Change in assets, deferred outflows, liabilities, and deferred inflows:			
Accounts receivable	(9,381)	-	(9,381)
Due from State Treasury	(4,012)	-	(4,012)
Accounts payable and other accrued liabilities	46,476	(94,164)	(47,688)
Net deferred outflows/inflows of resources	263,899	246,769	510,668
Net pension liability	351,766	176,990	528,756
Net other postemployment benefits liability	(226,539)	(164,007)	(390,546)
Net cash used in operating activities	<u>\$ (2,356,095)</u>	<u>\$ (2,833,409)</u>	<u>\$ (5,189,504)</u>

See accompanying notes to the basic financial statements.

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2021

1. Organization and Summary of Significant Accounting Policies

a. Financial Reporting Entity

The State of Hawaii, Department of Health (the Department), administers and oversees statewide personal health services, health promotion and disease prevention, mental health programs, monitoring of the environment, and the enforcement of environmental health laws. Federal grants received to support the State's health services and programs are administered by the Department.

The accompanying financial statements of the Department have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) prescribed by the Governmental Accounting Standards Board (GASB).

The Department is part of the executive branch of the State of Hawaii (State). The financial statements of the Department are intended to present the financial position and the changes in financial position and cash flows, where applicable, of only that portion of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State as of June 30, 2021, and the changes in its financial position and cash flows, and budgetary comparisons, where applicable, for the year then ended in conformity with GAAP. The State Comptroller maintains the central accounts for all State funds and publishes the State's Annual Comprehensive Financial Report (ACFR), which includes the Department's financial activities.

Act 262, Session Laws of Hawaii of 1996, established the Hawaii Health Systems Corporation (HHSC) as a public body corporate and politic and an instrumentality and agency of the State. HHSC consists of the state hospitals and was created to provide quality health care for all of the people in the State. HHSC commenced operations on July 1, 1996 and is administratively attached to the Department. However, HHSC is a component unit of the State and not the Department. HHSC's stand-alone financial statements are included in the State's ACFR but are not included in the Department's basic financial statements.

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2021

1. Organization and Summary of Significant Accounting Policies (continued)

b. Government-wide Financial Statements

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

Certain eliminations have been made as prescribed by GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, related to interfund activities, receivables, and payables. All internal balances have been eliminated except those representing balances between governmental and business-type activities, which are presented as internal balances and eliminated in the total department column when applicable. In the statement of activities, those transactions between governmental and business-type activities have not been eliminated. In addition, the fiduciary funds account for net position held in a trustee or agent capacity for others. These funds are not reflected in the government-wide financial statements since these resources are not available to support the Department's programs.

c. Fund Financial Statements

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Department considers revenues 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-end.

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

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2021

1. Organization and Summary of Significant Accounting Policies (continued)

c. Fund Financial Statements (continued)

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

The proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide financial statements described above.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The principal operating revenues of the proprietary funds are interest income and administrative loan fees on loans made to county governments. Federal grants, state matching funds and interest income from sources other than loans are reported as nonoperating revenues. Principal forgiveness for loans are reported as operating expenses.

A description of the funds administered by the Department is as follows:

General Fund - The General Fund is the general operating fund of the Department. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund presented is a part of the State's General Fund and is limited to only those appropriations and obligations of the Department.

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

Capital Projects Funds - Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds) and are included in Other Funds in the fund financial statements.

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2021

1. Organization and Summary of Significant Accounting Policies (continued)

c. Fund Financial Statements (continued)

The Department accounts for governmental fund balances in accordance with GASB Statement No. 54 (GASBS 54), *Fund Balance Reporting and Governmental Fund Type Definitions*. GASBS 54's hierarchical fund balance classification structure is based primarily on the extent to which a government is bound to follow constraints on how resources can be spent. Classifications include:

Nonspendable fund balance - amounts that are not in spendable form (such as inventory) or are required to be maintained intact;

Restricted - amounts constrained to specific purposes by their providers (such as creditors, grantors or other governments) through constitutional provisions, or by enabling legislation;

Committed - amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level of action to remove or change the constraint;

Assigned - amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the government delegates the authority;

Unassigned - amounts that are available for any purpose; positive amounts are reported only in the general fund.

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

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2021

1. Organization and Summary of Significant Accounting Policies (continued)

c. Fund Financial Statements (continued)

Proprietary Funds (Business-Type Activities)

Enterprise Funds - Enterprise funds are used to account for the activities for which the intent of management is to recover, primarily through user charges, the cost of providing goods or services to customers or where sound financial management dictates that periodic determination of results of operations are appropriate.

d. Equity in Cash and Cash Equivalents and Investments in State Treasury

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

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

GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, requires disclosures over common deposit and investment risks related to credit risk, interest rate risk, and foreign currency risk. Investments can be categorized by type, maturity and custodian to determine the level of interest rate, credit and custodial risk assumed by the Department. However, as all of the Department's monies are held in the State cash pool, the Department does not manage its own investments and the types of investments and related interest rate, credit and custodial risks are not determinable at the department level. The risk disclosures of the State's cash pool are included in the 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 Health

State of Hawaii

Notes to Basic Financial Statements
June 30, 2021

1. Organization and Summary of Significant Accounting Policies (continued)

e. Due from Other State Agency

Receivables due from other State agency consist of reimbursements from the Department of Human Services (DHS) for Medicaid payments that the Department makes to providers of health services. The Department is responsible to pay the State portion of the Medicaid claims, and DHS reimburses the Department for the Federal portion of the claims. The receivable of approximately \$4,468,000 is comprised of various Medicaid rehabilitation option claims.

Payments made to providers and received from DHS for the Federal portion of the Medicaid claims are classified as expenditures and transfers in, respectively, for financial statement purposes.

f. Tobacco Settlement

In November 1998, the State settled its tobacco lawsuit as part of a nationwide settlement involving 46 other states and various tobacco industry defendants. Under the settlement, those tobacco companies that have joined in the Master Settlement Agreement will pay the State approximately \$1.4 billion over a 27 year period. The Department is responsible for administering the Hawaii Tobacco Settlement Special Fund (HTSSF). The Department of Budget and Finance receives all tobacco settlement monies. The annual tobacco settlement monies are then transferred to the Department. Subsequently, the Department allocates and appropriates 100 percent of the funds to other State agencies and other entities in accordance with Act 118, Sessions Laws of Hawaii (SLH) 2015. The Department receives annual payments on April 15 of each year for tobacco settlements earned for the preceding calendar year.

During the year ended June 30, 2018, the State entered into an arbitration settlement with the Tobacco industry. As a result, arbitration credits of approximately \$5.1 million will be applied against the annual tobacco settlement payments through the year ending June 30, 2022.

The Department recognized approximately \$37.1 million in tobacco settlement revenues during the year ended June 30, 2021. In accordance with GASB Technical Bulletin No. 2004-1, *Tobacco Settlement Recognition and Financial Reporting Entity Issues*, the Department has recorded a tobacco settlement receivable for \$16.7 million in the statement of net position representing tobacco settlements earned for the period January 1, 2021 through June 30, 2021.

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2021

1. Organization and Summary of Significant Accounting Policies (continued)

g. Loans Receivable

Loans made to counties are funded by federal capitalization grants, State matching funds, repayments and investment interest income. Loan funds are disbursed to local agencies as they expend for the purposes of the loan and request reimbursement from the proprietary funds. Interest is calculated from the date that funds are advanced. After the final disbursement has been made, the payment schedule identified in the loan agreement is adjusted for the actual amounts disbursed and interest accrued during the project period. Certain capitalization grants allow for portions of loans to be forgiven upon satisfaction of certain requirements.

h. Administrative Loan Fees

The Department has implemented an administrative loan fee program to pay for the proprietary fund's administration, including employee salaries and benefits. The proprietary funds apply an administrative fee to all loans as provided for in Chapter 11-65 of the Hawaii Administrative Rules.

i. Capital Assets

Capital assets, which include buildings, furniture, and equipment, are reported in the applicable governmental or business-type activities in the government-wide financial statements and in the proprietary funds' financial statements. Capital assets are defined by the Department as those assets with estimated useful lives greater than one year and with an acquisition cost greater than:

	Minimum Capitalization Amount
Land	All
Land improvements	\$ 100,000
Buildings and improvements	100,000
Furniture and equipment	5,000
Motor vehicles	5,000

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2021

1. Organization and Summary of Significant Accounting Policies (continued)

i. Capital Assets (continued)

Such assets are recorded at historical cost if purchased or constructed. Donated assets are recorded at estimated fair value at the time received. Depreciation expense is recorded in the government-wide and proprietary funds' financial statements using the straight-line method over the estimated useful lives of the assets. Generally, the useful lives (in years) are as follows:

	Governmental-Type Activities	Business-Type Activities
Land improvements	15 years	5-100 years
Buildings and improvements	30 years	5-100 years
Furniture and equipment	7 years	1-25 years
Motor vehicles	5 years	5-10 years

j. Unearned Revenue

Unearned revenues at the government-wide level and fund level arise when the Department receives resources before it has a legal claim to them. In subsequent periods, when the revenue recognition criteria is met, or when the Department has a legal claim to the resources, the liability for unearned revenue is removed from the statement of net position and balance sheet, and revenue is recognized. Unearned revenues at June 30, 2021 consisted primarily of Federal grant funds for which all requirements had not yet been met.

k. Due to Other State Agencies

Payables to other State agencies consists of funds allocated to other State agencies in accordance with the HTSSF amounted to \$16.9 million as of June 30, 2021.

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2021

1. Organization and Summary of Significant Accounting Policies (continued)

l. Beverage Container Deposits and Container Fees

Deposits of \$0.05 are made by distributors to the deposit beverage container deposit special fund (DBCDSF) for each qualifying container sold. The DBCDSF maintains all deposits until the redemption centers claim reimbursement for the deposits paid to consumers. The DBCDSF maintains the deposits that are expected to be redeemed. In addition, deposits of \$0.01 are made by the distributors to the DBCDSF for each qualifying container as a container fee.

Amounts paid to consumers are based on containers redeemed or a predetermined weight per type of container redeemed (i.e., aluminum, mixed plastics, etc.). These weights are determined based on the mix of containers redeemed and are reviewed when necessary. Management adjusts the deposit liability balance and unredeemed deposit revenue recognized based on the amount of deposits refunded in the first three months of the subsequent fiscal year related to deposits collected prior to year end. Deposits not refunded within the first three months of the subsequent fiscal year are recognized as revenue for the previous year.

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

m. Deferred Outflows and Inflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until that time. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. The following is a breakdown of deferred outflows of resources and deferred inflows of resources as of June 30, 2021:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Related to Pensions	\$ 1,365,750	\$ (371,229)
Related to Other Post-retirement Benefits	394,161	(490,944)
	<u>\$ 1,759,911</u>	<u>\$ (862,173)</u>

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2021

1. Organization and Summary of Significant Accounting Policies (continued)

n. Accrued Vacation

Vacation pay is accrued as earned by employees. Vacation pay can accumulate at the rate of one and three-quarters working days for each month of service up to 720 hours at calendar year-end and is convertible to pay upon termination of employment. Accrued vacation also includes compensatory time, as compensatory time is convertible to pay upon termination of employment. As accrued vacation does not require the use of current financial resources, it is not reported in the governmental funds balance sheet.

o. Accumulated Sick Leave

Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limit, but may be taken only in the event of illness and is not convertible to pay upon termination of employment. However, a State employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the State's Employees' Retirement System (ERS). At June 30, 2021, accumulated sick leave was approximately \$78.0 million.

p. Intrafund and Interfund Transactions

Significant transfers of financial resources between activities included within the same fund are offset within that fund. Transfers of revenues from funds authorized to receive them to funds authorized to expend them are recorded as operating transfers in the basic financial statements.

q. Use of Estimates

In preparing financial statements in conformity with GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Department of Health

State of Hawaii

Notes to Basic Financial Statements
June 30, 2021

1. Organization and Summary of Significant Accounting Policies (continued)

r. Encumbrances

Encumbrance accounting, under which purchase orders and contractual commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed in the governmental funds. Although appropriations generally lapse at year end, open encumbrances are reported as reservations of fund balances because the commitments will be honored when the goods or services are received. Encumbrances do not constitute expenditures or liabilities.

s. Use of Restricted and Unrestricted Net Position

When an expense is incurred for which both restricted and unrestricted net position is available, the Department's policy is to apply restricted net position first.

t. Nonmonetary Transactions

The Department receives noncash awards for one of its federally funded programs. The Department expended approximately \$15.2 million in vaccines during the fiscal year ended June 30, 2021 and recorded intergovernmental revenues of the same amount in the accompanying basic financial statements.

u. Administrative Costs

DAGS assesses the Department's special funds centralized and administrative service fees, which are recorded as direct expenditures in the Department's funds. The DBCDSF is exempt from paying the central service fee assessed by DAGS under Act 228, SLH 2013.

v. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the ERS and additions to/deductions from the ERS's fiduciary net position have been determined on the same basis as they are reported by the ERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at their fair value.

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2021

1. Organization and Summary of Significant Accounting Policies (continued)

w. Other Post-employment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Hawaii Employer-Union Health Benefits Trust Fund (EUTF) and additions to/deductions from the EUTF's fiduciary net position have been determined on the same basis as they are reported by the EUTF. For this purpose, benefit payments are recognized when due and payable in accordance with benefit terms. Investments are reported at their fair value.

x. Recently Adopted Accounting Pronouncement

During fiscal year 2021, the State 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 GASB Statement No. 84 has resulted in the restatement of the beginning net position for the fiscal year ended June 30, 2020 of \$448,977 to reflect the change in fund classification from agency funds to governmental fund.

y. New Accounting Pronouncement

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to establish a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thus enhancing the relevance and consistency of information reported about the government's leasing activities. The provisions of this Statement are effective for the period beginning after December 15, 2019, postponed by GASB Statement No. 95 for 18 months. The Department has not yet determined the effect this Statement will have on its financial statements.

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2021

1. Organization and Summary of Significant Accounting Policies (continued)

y. New Accounting Pronouncement (continued)

In January 2020, GASB issued Statement No. 92, *Omnibus 2020*. The 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 provisions of this Statement are effective at multiple periods depending on when certain statements are implemented, postponed by GASB Statement No. 95. The Department has not yet determined the effect this Statement will have on its financial statements.

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. The objective of this Statement is to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements for government users. The provisions of this Statement are effective for reporting periods beginning after June 15, 2022. The Department has not yet determined the effect this Statement will have on its financial statements.

In June 2020, 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 plans, and employee benefit plans other than pension plans or OPEB 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 Department has not yet determined the effect this Statement will have on its financial statements.

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2021

2. Budgeting and Budgetary Control

The Department follows these procedures in establishing the budgetary data reflected in the basic financial statements:

The Budget - Not less than 20 days before the State Legislature convenes in every odd-numbered year, the Governor submits to the State Legislature, and to each member thereof, a budget which contains the program and budget recommendation of the Governor for the succeeding biennium. The budget in general contains: the State program structure; statements of statewide objectives; financial requirements for the next biennium to carry out the recommended programs; a summary of State receipts and revenues in the last completed fiscal year; a revised estimate for the fiscal year in progress; and an estimate for the succeeding biennium.

Legislative Review - The State Legislature considers the Governor's proposed program and financial plan and budget, evaluates alternatives to the Governor's recommendations, adopts programs, and determines the State budget. It may, from time to time, request the Department of Budget and Finance and any agency to conduct such analysis of programs and finances as will assist in determining the State's program and financial plan and budget.

Program Execution - Except as limited by policy decisions of the Governor, appropriations by the State Legislature, and other provisions of law, the agencies responsible for the programs administer the programs and are responsible for their proper management. The appropriations by the State Legislature for a biennium are allocated between the two fiscal years of the biennium in the manner provided in the budget or appropriations act and as further prescribed by the Director of Finance. No appropriation transfers or changes between programs or agencies can be made without legislative authorization. Authorized transfers or changes, when made, should be reported to the State Legislature.

Department of Health **State of Hawaii**

Notes to Basic Financial Statements
June 30, 2021

2. Budgeting and Budgetary Control (continued)

Budgetary control is maintained at the appropriation line item level established in the appropriation acts. Budgets are adopted for the Department's funds and are prepared on the cash basis of accounting, except for the encumbrance of purchase orders and contract obligations (basis difference), which is a basis of accounting other than GAAP.

Since budgetary basis differs from GAAP, budget and actual amounts in the budgetary comparison statements are presented on the budgetary basis. A reconciliation of revenues over expenditures (expenditures over revenues) on a budgetary basis at June 30, 2021, to excess of revenues over expenditures presented in conformity with GAAP follows:

	<u>General</u>	<u>Deposit Beverage Container Deposit</u>
(Deficiency) excess of revenues over (under) expenditures and other sources (uses) - actual on a budgetary basis	\$ -	\$ (12,500,899)
Current year's appropriations encumbered at June 30, 2021	61,585,633	29,458,926
Expenditures for liquidation of prior fiscal year encumbrances	(412,519,144)	(19,539,149)
Total accruals and other adjustments	<u>364,005,224</u>	<u>4,072,000</u>
Net change in fund balances - GAAP basis	<u>\$ 13,071,713</u>	<u>\$ 1,490,878</u>

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2021

3. Loans Receivable

At June 30, 2021, the proprietary funds loans receivable consisted of loans to county governmental units for the water pollution control and drinking water treatment programs. The loans require annual, semi-annual or quarterly payments, including interest at 0.00% to 2.96%, commencing not later than one year after project completion, notice to proceed, final loan disbursement, or three years after loan agreement date. Final payment is due not later than twenty years after project completion. During the year ended June 30, 2021, approximately \$0.9 million in loans was forgiven. All loans and advances forgiven were in accordance with required conditions. Accrued interest receivable on the loans amounted to approximately \$553,000 at June 30, 2021.

The following is a schedule of principal payments due on loans for projects completed or in progress as of June 30, 2021:

<u>Year ending June 30,</u>	
2022	\$ 53,425,077
2023	54,309,159
2024	54,521,664
2025	54,810,183
2026	55,013,625
2027-2031	214,661,487
2032-2036	143,643,761
2037-2041	73,735,900
2042	863,776
	<u>\$ 704,984,632</u>

As of June 30, 2021, the Department's proprietary funds were committed under existing loan agreements to the following counties:

	<u>Water Pollution Control Revolving Fund</u>	<u>Drinking Water Treatment Revolving Loan Fund</u>	<u>Total</u>
City and County of Honolulu	\$ 6,000,000	\$ -	\$ 6,000,000
County of Maui	10,760,684	4,250,000	15,010,684
County of Hawaii	25,071,654	-	25,071,654
County of Kauai	16,859,382	-	16,859,382
	<u>\$ 58,691,720</u>	<u>\$ 4,250,000</u>	<u>\$ 62,941,720</u>

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2021

4. Capital Assets

Capital asset activity for governmental and business-type activities for the year ended June 30, 2021 was as follows:

	Balance July 1, 2020	Additions	Disposals	Balance June 30, 2021
Governmental Type Activities:				
Depreciable Assets:				
Land improvements	\$ 3,304,766	\$ -	\$ -	\$ 3,304,766
Building and improvements	235,424,486	145,949,214	(340,849)	381,032,851
Furniture and equipment	30,046,870	2,576,923	(804,275)	31,819,518
Total depreciable assets	268,776,122	148,526,137	(1,145,124)	416,157,135
Less Accumulated Depreciation:				
Land improvements	(2,692,917)	(96,123)	-	(2,789,040)
Building and improvements	(135,481,607)	(5,658,257)	73,851	(141,066,013)
Furniture and equipment	(23,926,869)	(1,950,392)	742,162	(25,135,099)
Total accumulated depreciation	(162,101,393)	(7,704,772)	816,013	(168,990,152)
Non-Depreciable Assets:				
Land	1,018,080	-	-	1,018,080
Governmental activities capital assets, net	<u>\$ 107,692,809</u>	<u>\$ 140,821,365</u>	<u>\$ (329,111)</u>	<u>\$ 248,185,063</u>
Business Type Activities				
Depreciable Assets:				
Furniture and equipment	\$ 3,494,526	\$ -	\$ (29,561)	\$ 3,464,965
Less Accumulated Depreciation:				
Furniture and equipment	(2,340,698)	(359,024)	29,561	(2,670,161)
Business activities capital assets, net	<u>\$ 1,153,828</u>	<u>\$ (359,024)</u>	<u>\$ -</u>	<u>\$ 794,804</u>
Total department capital assets, net	<u>\$ 108,846,637</u>	<u>\$ 140,462,341</u>	<u>\$ (329,111)</u>	<u>\$ 248,979,867</u>

For the year ended June 30, 2021, the State allocated a building to DOH which amounted to approximately \$145.8 million and was recorded as transfers on the government-wide statement of activities.

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2021

4. Capital Assets (continued)

Current period depreciation expense was charged to functions as follows:

	Governmental Activities	Business-Type Activities	Total
General administration	\$ 2,896,340	\$ -	\$ 2,896,340
Environmental health	696,583	359,024	1,055,607
Behavioral health	1,122,026	-	1,122,026
Health resources	2,989,823	-	2,989,823
Total	<u>\$ 7,704,772</u>	<u>\$ 359,024</u>	<u>\$ 8,063,796</u>

5. Accrued Vacation

The changes to the accrued vacation liability during the year ended June 30, 2021 were as follows:

	Governmental Activities	Business-Type Activities	Total
Balance at July 1, 2020	\$ 31,663,943	\$ 478,956	\$ 32,142,899
Increase	14,995,825	140,845	15,136,670
Decrease	<u>(10,700,330)</u>	<u>(128,411)</u>	<u>(10,828,741)</u>
Balance at June 30, 2021	35,959,438	491,390	36,450,828
Less: Current Portion	<u>10,135,644</u>	<u>125,264</u>	<u>10,260,908</u>
Noncurrent Portion	<u>\$ 25,823,794</u>	<u>\$ 366,126</u>	<u>\$ 26,189,920</u>

6. Beverage Container Deposits

The changes to the beverage container deposit liability during the year ended June 30, 2021 were as follows:

Balance as of July 1, 2020	\$ 2,046,895
Increase: Deposits received from distributors	47,402,890
Decrease: Payments made to recycling centers, net of refunds	(29,867,999)
Decrease: Unredeemed deposits recognized as revenue	<u>(15,466,613)</u>
Balance as of June 30, 2021	<u>\$ 4,115,173</u>

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2021

7. Non-imposed Employee Fringe Benefits

Non-imposed employee fringe benefits related to general and State special fund salaries are funded by the State. These costs, totaling approximately \$80.2 million for the fiscal year ended June 30, 2021, have been reported as revenues and expenditures of the Department's general and State special revenue funds.

Payroll fringe benefit costs related to Federally-funded salaries are not funded by the State and are recorded as expenditures in the Federal special revenue funds.

8. Employee Benefit Plans

a. Employees' Retirement System

i. Plan Description

Generally, all full-time employees of the State and counties are required to be members of the ERS, a cost-sharing multiple-employer defined benefit pension plan that administers the State's pension benefits program. Benefits, eligibility, and contribution requirements are governed by HRS Chapter 88 and can be amended through legislation. The ERS issues publicly available annual financial reports that can be obtained at ERS' website: <http://www.ers.hawaii.gov/resources/financials>.

ii. Benefits Provided

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% or 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.

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2021

8. Employee Benefit Plans (continued)

a. Employees' Retirement System (continued)

ii. Benefits Provided (continued)

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 ten 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. Ten 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 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 dependent children, no benefit is payable.

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2021

8. Employee Benefit Plans (continued)

a. Employees' Retirement System (continued)

ii. Benefits Provided (continued)

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 Plan for Employees 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.

Police officers and firefighters' retirement benefits are determined using the benefit multiplier of 2.5% for qualified service, up to a maximum of 80% of average final compensation. Police officers and firefighters with five years of credited service are eligible to retire at age 55. Police officers and fire fighters with 25 years of credited service are eligible to retire at any age, provided the last five years is service credited in these occupations.

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. Ten 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.

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2021

8. Employee Benefit Plans (continued)

a. Employees' Retirement System (continued)

ii. Benefits Provided (continued)

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 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 ten 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 Plan for Employees 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 ten years of credited service are eligible to retire at age 60.

Police officers and firefighters' retirement benefits are determined using the benefit multiplier of 2.25% for qualified service, up to a maximum of 80% of average final compensation. Police officers and firefighters with ten years of credited service are eligible to retire at age 60. Police officers and fire fighters with 25 years of credited service are eligible to retire at age 55, provided the last five years is service credited in these occupations.

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2021

8. Employee Benefit Plans (continued)

a. Employees' Retirement System (continued)

ii. Benefits Provided (continued)

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. Ten years of credited service is required for ordinary disability.

For police officers and firefighters, ordinary disability benefits are 1.75% of average final compensation for each year of service and are payable immediately, without an actuarial reduction, at a minimum of 30% of average final compensation.

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 Plan for Employees 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. Ten 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.

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2021

8. Employee Benefit Plans (continued)

a. Employees' Retirement System (continued)

ii. Benefits Provided (continued)

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.

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 ten 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 Plan for Employees 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 ten 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.

Department of Health

State of Hawaii

Notes to Basic Financial Statements
June 30, 2021

8. Employee Benefit Plans (continued)

a. Employees' Retirement System (continued)

ii. Benefits Provided (continued)

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 ten 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 ten 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.

iii. Contributions

Contributions are governed by HRS Chapter 88 and may be amended through legislation. 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 rates for fiscal year 2021 were 41% for police officers and firefighters and 24% for all other employees. Contributions to the pension plan from the Department were \$559,954 for the fiscal year ended June 30, 2021.

Pursuant to Act 17 SLH 2017, employer contributions from the State and counties are expected to increase pursuant to a phased-in contribution rate increase over four years beginning July 1, 2017. The rate for police officers and firefighters increased to 41% on July 1, 2020. The rate for all other employees increased to 24% on July 1, 2020.

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2021

8. Employee Benefit Plans (continued)

a. Employees' Retirement System (continued)

iii. Contributions (continued)

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.

iv. Net Pension Liabilities, Pension Expense, and Deferred Outflows and Inflows of Resources, Related to Pensions

At June 30, 2021, the Department reported a liability of \$7,255,467 for its proportionate share of net pension liability of the State. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The State's proportion of the net pension liability was based on a projection of the State's long-term share of contributions to the pension plan relative to projected contributions of all participants, actuarially determined. At June 30, 2020 and 2019, the Department's proportion of the State share was 0.08% and 0.09%, respectively.

There were no change in actuarial assumptions as of June 30, 2019 to June 30, 2020. There were no changes in assumptions between the measurement date, June 30, 2020, and the reporting date, June 30, 2021, that are expected to have a significant effect on the proportionate share of the net pension liability.

Department of Health **State of Hawaii**

Notes to Basic Financial Statements
June 30, 2021

8. Employee Benefit Plans (continued)

a. Employees' Retirement System (continued)

iv. Net Pension Liabilities, Pension Expense, and Deferred Outflows and Inflows of Resources, Related to Pensions (continued)

For the year ended June 30, 2021, the Department recognized pension expense of \$967,408. At June 30, 2021, the Department reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 112,513	\$ -
Changes in assumptions	277,544	(103)
Net difference between projected and actual earnings on pension plan investments	370,145	(349,368)
Changes in proportion and difference between Department contributions and proportionate share of contributions	45,594	(21,758)
Department contributions subsequent to the measurement date	559,954	-
	<u>\$ 1,365,750</u>	<u>\$ (371,229)</u>

Department of Health **State of Hawaii**

Notes to Basic Financial Statements
June 30, 2021

8. Employee Benefit Plans (continued)

a. Employees' Retirement System (continued)

iv. Net Pension Liabilities, Pension Expense, and Deferred Outflows and Inflows of Resources, Related to Pensions (continued)

The \$559,954 reported as deferred outflows of resources related to pensions resulting from Department contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal year ending June 30,</u>	
2022	\$ 141,959
2023	111,343
2024	110,701
2025	35,163
2026	<u>35,401</u>
	<u>\$ 434,567</u>

v. Actuarial Assumptions

The total pension liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions adopted by the Board of Trustees of the Employees' Retirement System of the State of Hawaii, on August 12, 2019, based on the 2018 Experience Study for the five-year period from July 1 2013 through June 30, 2018:

Inflation	2.50%
Payroll growth rate	3.50%
Investment rate of return	7.00% per year, compounded annually including inflation

There were no changes to ad hoc postemployment benefits including cost of living allowances.

Department of Health **State of Hawaii**

Notes to Basic Financial Statements
June 30, 2021

8. Employee Benefit Plans (continued)

a. Employees' Retirement System (continued)

v. Actuarial Assumptions (continued)

Post-retirement mortality rates are based on the 2019 Public Retirees of Hawaii mortality table with adjustments based on generational projections of the BB projection table for 2019 and full generational projections in future years. Pre-retirement mortality rates are based on multiples of Pub-2010 mortality table based on the occupation of the member.

The long-term expected rate of return on pension plan investments was determined using a "top down approach" of the Client-Constrained Simulation-based Optimization Model (a statistical technique known as "re-sampling with a replacement" that directly keys in on specific plan-level risk factors as stipulated by the ERS Board of Trustees) in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future nominal rates of return (real returns and inflation) by the target asset allocation percentage. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Strategic Allocation (risk-based classes)	Target Allocation	Long-term Expected Real Rate of Return
Broad growth	63.0%	7.9%
Diversifying strategies	37.0%	3.7%
	100.0%	

Department of Health **State of Hawaii**

Notes to Basic Financial Statements
June 30, 2021

8. Employee Benefit Plans (continued)

a. Employees' Retirement System (continued)

v. Actuarial Assumptions (continued)

Discount Rate - The discount rate used to measure the net pension liability was 7.00%, consistent with the rate used at the prior measurement date. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from the State will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Department's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the Department's proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what the Department's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.00%) or 1-percentage point higher (8.00%) than the current rate:

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Department's proportionate share of the net pension liability	\$ 9,320,632	\$ 7,255,467	\$ 5,552,932

Department of Health

State of Hawaii

Notes to Basic Financial Statements
June 30, 2021

8. Employee Benefit Plans (continued)

a. Employees' Retirement System (continued)

vi. Pension Plan Fiduciary Net Position

The pension plan's fiduciary net position is determined on the same basis used by the pension plan. The ERS financial statements are prepared using the accrual basis of accounting under which expenses are recorded when the liability is incurred, and revenues are recorded in the accounting period in which they are earned and become measurable. Employer and member contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investment purchases and sales are recorded as of their trade date. Administrative expenses are financed exclusively with investment income.

There were no significant changes after the report measurement date. Detailed information about the pension plan's fiduciary net position is available in the separately issued ERS financial report. ERS's complete financial statements are available at <http://www.ers.hawaii.gov/resources/financials>.

The State's comprehensive annual financial report contains further disclosures related to the State's proportionate share of the net pension liability and employer pension contributions.

vii. Payables to the Pension Plan

At June 30, 2021, there was no payable to the ERS.

b. Deferred Compensation Plan

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

All plan assets are held in a trust fund to protect them from claims of general creditors. The State has no responsibility for loss due to the investment or failure of investment of funds and assets in the plan, but has the duty of due care that would be required of an ordinary prudent investor.

Department of Health

State of Hawaii

Notes to Basic Financial Statements
June 30, 2021

8. Employee Benefit Plans (continued)

c. Post-Employment Healthcare and Life Insurance Benefits

i. Plan Description

The State provides certain health care and life insurance benefits to all qualified employees. Pursuant to Act 88, SLH 2001, the state contributes to the EUTF, an agent multiple employer defined benefit plan that replaced 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 at <https://eutf.hawaii.gov/reports>. The report may also be obtained by writing to the EUTF at P.O. Box 2121 Honolulu, HI, 96805-2121.

For employees hired before July 1, 1996, the State pays the entire base monthly contribution for employees retiring with ten years or more of credited service, and 50% of the base monthly contribution for employees retiring with fewer than ten 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 ten years of service, the State makes no contributions. For those retiring with at least ten years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For employees retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For 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 ten years of service, the State makes no contributions. For those retiring with at least ten 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 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.

Department of Health

State of Hawaii

Notes to Basic Financial Statements
June 30, 2021

8. Employee Benefit Plans (continued)

c. Post-Employment Healthcare and Life Insurance Benefits (continued)

i. Plan Description (continued)

State Policy - 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 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 proportionate share of contributions made by each component unit or proprietary fund for retiree health benefits.

ii. Contributions

Contributions are governed by HRS Chapter 87A and may be amended through legislation. Contributions to the OPEB plan from the Department was \$259,551 for the fiscal year ended June 30, 2021. The employer is required to make all contributions for members.

iii. OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2021, the Department reported a liability of \$6,168,020 for its proportionate share of net OPEB liability of the State. The net OPEB liability was measured as of July 1, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The State's proportion of the net OPEB liability was based on a projection of the State's long-term share of contributions to the EUTF relative to projected contributions of all participants, actuarially determined. The Department's proportion of the net OPEB liability was based on an allocation of the State's net OPEB liability based on the proportionate share of qualified payroll. At June 30, 2020 and 2019, the Department's proportion of the State's share was 0.07%.

There were no changes in assumptions between the measurement date, July 1, 2020, and the reporting date, June 30, 2021, that are expected to have a significant effect on the proportionate share of the net OPEB liability.

Department of Health **State of Hawaii**

Notes to Basic Financial Statements
June 30, 2021

8. Employee Benefit Plans (continued)

c. Post-Employment Healthcare and Life Insurance Benefits (continued)

iii. OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (continued)

For the year ended June 30, 2021, the Department recognized OPEB expense of \$474,822. At June 30, 2021, the Department reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ (458,905)
Changes in assumptions	66,034	(32,039)
Net difference between projected and actual earnings on investments	68,576	-
Department contributions subsequent to the measurement date	259,551	-
	<u>\$ 394,161</u>	<u>\$ (490,944)</u>

The \$259,551 reported as deferred outflows of resources related to OPEB resulting from Department contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the fiscal year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal year ending June 30,	
2022	\$ (73,941)
2023	(73,943)
2024	(72,218)
2025	(63,152)
2026	(73,080)
	<u>\$ (356,334)</u>

Department of Health **State of Hawaii**

Notes to Basic Financial Statements
June 30, 2021

8. Employee Benefit Plans (continued)

c. Post-Employment Healthcare and Life Insurance Benefits (continued)

iv. Actuarial Assumptions

The total OPEB liability in the July 1, 2020 actuarial valuation was determined using the following actuarial methods and assumptions adopted by the EUTF's Board of Trustees on January 13, 2020, based on the experience study covering the five-year period June 30, 2018 as conducted for the ERS, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Salary increases	3.50% to 7.00% including inflation
Investment rate of return	7.00%
Healthcare cost trend rates:	
PPO*	Initial rate of 7.50% declining to a rate of 4.70% after 13 years.
HMO*	Initial rate of 7.50% declining to a rate of 4.70% after 13 years.
Contribution	Initial rate of 5.00% declining to a rate of 4.70% after 10 years.
Dental	Initial rate of 5.00% for the first year, followed by 4.00% for all future years
Vision	Initial rate of 0.00% for the first year, followed by 2.50% for all future years
Life insurance	0.00%
*Blended rates for medical and prescription drug	

Mortality rates are based on system-specific mortality tables utilizing scale BB to project generational mortality improvement.

The long-term expected rate of return on OPEB plan's investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each asset class are summarized in the following table:

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2021

8. Employee Benefit Plans (continued)

c. Post-Employment Healthcare and Life Insurance Benefits (continued)

iv. Actuarial Assumptions (continued)

Asset Class	Target Allocation	Long-term Expected Rate of Return
Private equity	10.00%	9.66%
U.S. microcap	6.00%	7.85%
U.S. equity	14.00%	6.23%
Non-U.S. equity	16.00%	7.72%
Global options	6.00%	4.65%
Core real estate	10.00%	5.98%
Private credit	6.00%	5.50%
Core bonds	3.00%	0.08%
TIPS	5.00%	0.11%
Long treasuries	6.00%	0.86%
Alternative risk premia	5.00%	1.56%
Trend following	8.00%	2.12%
Reinsurance	5.00%	4.34%
	<u>100.00%</u>	

v. Single Discount Rate

The discount rate used to measure the net OPEB liability was 7.00%, based on the expected rate of return on the OPEB plan investments of 7.00%. Beginning with the fiscal year 2019 contribution, the State's funding policy is to pay the recommended actuarially determined contribution, which is based on layered, closed amortization periods. In July 2020, the Governor's office issued the Tenth Proclamation related to the COVID-19 Emergency, allowing employers of the EUTF to suspend Act 268 contributions for the fiscal year ending June 30, 2021 and instead limit their contribution amounts to the OPEB benefits due. This temporary Act 268 suspension would not derail the plan's long-term funding progress. Even if Act 268 is suspended through fiscal year ending June 30, 2025, as is being discussed, the OPEB plan's fiduciary net position is expected to be available to make all projected future benefit payments of current plan members.

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2021

8. Employee Benefit Plans (continued)

c. Post-Employment Healthcare and Life Insurance Benefits (continued)

v. Single Discount Rate (continued)

Act 229, SLH 2021 suspends the contribution requirement for fiscal years 2022 and 2023. The State has made its full Annual Required Contribution in fiscal year 2021 and intends to make contributions for fiscal years 2022 and 2023. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

vi. Changes in Net OPEB Liability

The following table represents a schedule of changes in the net OPEB liability. The ending balances are as of the measurement date, July 1, 2020.

	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Beginning balance	\$ 7,807,427	\$ 1,248,863	\$ 6,558,564
Service cost	159,677	-	159,677
Interest on the total OPEB liability	512,762	-	512,762
Changes of benefit terms	-	-	-
Difference between expected and actual experience	(469,452)	-	(469,452)
Changes of assumptions	(38,438)	-	(38,438)
Employer contributions	-	526,978	(526,978)
Net investment income	-	28,137	(28,137)
Benefit payments	(235,825)	(235,825)	-
Administrative expense	-	(198)	198
Other	-	176	(176)
Net changes	(71,276)	319,268	(390,544)
Ending balance	\$ 7,736,151	\$ 1,568,131	\$ 6,168,020

Department of Health **State of Hawaii**

Notes to Basic Financial Statements
June 30, 2021

8. Employee Benefit Plans (continued)

c. Post-Employment Healthcare and Life Insurance Benefits (continued)

vii. Sensitivity of the Department's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents the Department's proportionate share of the net OPEB liability calculated using the discount rate of 7.00%, as well as what the Department's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	<u>1% Decrease (6.00%)</u>	<u>Discount Rate (7.00%)</u>	<u>1% Increase (8.00%)</u>
Department's proportionate share of the net OPEB liability	<u>\$ 7,401,160</u>	<u>\$ 6,168,020</u>	<u>\$ 5,196,309</u>

viii. Sensitivity of the Department's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the Department's proportionate share of the net OPEB liability calculated using the assumed healthcare cost trend rates, as well as what the Department's proportionate share of the net OPEB liability would be if it were calculated using the trend rate that is one percentage point lower or one percentage point higher than the current healthcare cost trend rate:

	<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rate</u>	<u>1% Increase</u>
Department's proportionate share of the net OPEB liability	<u>\$ 5,152,351</u>	<u>\$ 6,168,020</u>	<u>\$ 7,481,774</u>

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2021

8. Employee Benefit Plans (continued)

c. Post-Employment Healthcare and Life Insurance Benefits (continued)

ix. OPEB Plan Fiduciary Net Position

The OPEB plan's fiduciary net position has been determined on the same basis used by the OPEB plan. The EUTF's financial statements are prepared using the accrual basis of accounting under which revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of the cash flows. Employer contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investment purchases and sales are recorded as of their trade date. Administrative expenses are financed exclusively with investment income.

There were no significant changes after the report measurement date. Detailed information about the OPEB plan's fiduciary net position is available in the separately issued EUTF financial report. The EUTF's complete financial statements are available at <http://eutf.hawaii.gov/reports/>.

x. Payables to the OPEB Plan

At June 30, 2021, there was no payable to the EUTF.

x. Required Supplementary Information and Disclosures

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

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2021

9. Commitments and Contingencies

a. Operating Leases

The Department leases various office facilities and equipment through fiscal year 2029 on a long-term basis as provided for in the lease agreements. The following is a schedule of minimum future rent payments on noncancelable operating leases at June 30, 2021:

<u>Year ending June 30,</u>	<u>Amount</u>
2022	\$ 486,962
2023	295,842
2024	107,834
2025	60,394
2026	39,241
2027-2029	<u>35,555</u>
	<u>\$ 1,025,828</u>

Rental expenditures for the fiscal year ended June 30, 2021 approximated \$2,375,000.

b. Insurance Coverage

The State maintains certain insurance coverage to satisfy bond indenture agreements as well as for other purposes, but is substantially self-insured for all other perils including workers' compensation. The State records a liability for risk financing and insurance related losses, including incurred but not reported, if it is determined that a loss has been incurred and the amount can be reasonably estimated. The State retains various risks and insures certain excess layers with commercial insurance companies. At June 30, 2021, the State recorded estimated losses for workers' compensation, automobile, and general liability claims as long-term liabilities as the losses will not be liquidated with currently expendable available financial resources. The estimated losses will be paid from legislative appropriations of the State's General Fund.

The Department's portion of the State's workers' compensation expenditures for the year ended June 30, 2021 were approximately \$490,000 and \$34,000 for the general fund and other funds, respectively.

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2021

9. Commitments and Contingencies (continued)

c. Litigation

The Department is a party to various legal proceedings, the outcome of which, in the opinion of management, will not have a material adverse effect on the Department's financial position. Losses, if any, are either covered by insurance or will be paid from legislative appropriations of the State's General Fund.

10. Restatements

During the current year, the following restatement adjustments were identified:

- Due to other State agencies related to Other Governmental Funds were overstated at June 30, 2020. As a result, the liability balance was restated resulting in an adjustment of approximately \$6.8 million to the July 1, 2020 net position and fund balance.
- Net position at June 30, 2020 was restated due to the implementation of GASB 84. The resulting adjustment was approximately \$449,000 to the July 1, 2020 fund balance for Other Governmental Funds.

The results of these adjustments have the following impact on the July 1, 2020 net position or fund balance:

	Governmental Activities	Other Governmental Funds	Total Governmental Funds
Net position or fund balance, as previously reported	\$ 388,701,682	\$ 209,069,211	\$ 311,997,846
Restatement adjustments	<u>7,236,569</u>	<u>7,236,569</u>	<u>7,236,569</u>
Net position or fund balance, as restated	<u>\$ 395,938,251</u>	<u>\$ 216,305,780</u>	<u>\$ 319,234,415</u>

11. Subsequent Events

On July 7, 2021, Act 212, SLH 2021, was passed to commence the transfer of Oahu Regional Health Care System in its entirety from HHSC to the Department. Act 212 requires the transfer to be completed no later than December 31, 2022. There was no impact to the net position of the Department at June 30, 2021.

SUPPLEMENTARY INFORMATION

Department of Health
State of Hawaii
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2021

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Project Number	Assistance Listing Number	Passed through to Subrecipients	Total Federal Expenditures
Department of Health and Human Services				
Direct Programs:				
Special Programs for the Aging - Title VII Chapter 3	468	93.041	\$ -	\$ 42,200
Special Programs for the Aging - Title VII Chapter 2:				
COVID 19 Special Programs for the Aging - Title VII Chapter 2	468	93.042	-	58,815
Special Programs for the Aging - Title VII Chapter 2	468	93.042	-	55,999
Subtotal Special Programs for the Aging - Title VII Chapter 2			-	114,814
Special Programs for the Aging - Title III Part D	401	93.043	48,063	48,063
Aging Cluster:				
Special Programs for the Aging - Title III Part B - Grants for Supportive Services and Senior Centers	401	93.044	1,187,960	1,278,194
COVID 19 Special Programs for the Aging - Title III Part C - Nutrition Services	401	93.045	4,256,366	4,256,366
Special Programs for the Aging - Title III Part C - Nutrition Services	401	93.045	3,300,556	3,868,947
Nutrition Services Incentive Program	406	93.053	687,678	687,678
Subtotal Aging Cluster			* 9,432,560	10,091,185
Special Programs for the Aging - Title IV and Title II - Discretionary Projects:				
COVID 19 Special Programs for the Aging - Title IV and Title II - Discretionary Projects	407	93.048	92,989	92,989
Special Programs for the Aging - Title IV and Title II - Discretionary Projects	405	93.048	-	229,667
Subtotal Special Programs for the Aging - Title IV and Title II - Discretionary Projects			92,989	322,656
Alzheimer's Disease Demonstration Grants to States	491, 769	93.051	205,317	205,317
National Family Caregiver Support, Title III, Part E	401	93.052	324,225	324,225
Public Health Emergency Preparedness:	1297	93.069	*	5,081,491
Medicare Enrollment Assistance Program	765, 766, 767	93.071	-	106,834
Hospital Preparedness Program and Public Health Emergency Preparedness				
Aligned Cooperative Agreements	1297	93.074	-	44,042
Affordable Care Act (ACA) Personal Responsibility Education Program	613	93.092	74,218	234,582
Food and Drug Administration Research	710	93.103	-	89,208
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	430, 764	93.104	-	1,195,811
Maternal and Child Health Federal Consolidated Programs:				
COVID 19 Maternal and Child Health Federal Consolidated Programs	various	93.110	738,154	1,083,563
Maternal and Child Health Federal Consolidated Programs	various	93.110	196,400	221,495
Subtotal Maternal and Child Health Federal Consolidated Programs			934,554	1,305,058

* Denotes Major Federal Program

Department of Health
State of Hawaii
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2021

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Project Number	Assistance Listing Number	Passed through to Subrecipients	Total Federal Expenditures
Department of Health and Human Services (Continued)				
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	247	93.116	\$ -	\$ 978,838
Emergency Medical Services for Children	670	93.127	-	168,278
Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	298	93.130	11,000	164,336
Injury Prevention and Control Research and State and Community Based Programs:				
COVID 19 Injury Prevention and Control Research and State and Community Based Programs	various	93.136	-	15,306
Injury Prevention and Control Research and State and Community Based Programs	various	93.136	3,304,115	4,438,164
Subtotal Injury Prevention and Control Research and State and Community Based Programs			* 3,304,115	4,453,470
Projects for Assistance in Transition from Homelessness	30208, 31208	93.150	67,421	67,421
Childhood Lead Poisoning Prevention Projects - State and Local				
Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	780	93.197	151,868	450,419
State Rural Hospital Flexibility Program	415	93.241	176,702	351,139
Substance Abuse and Mental Health Services - Projects of				
Regional and National Significance	652, 759, 890	93.243	3,863,471	4,066,783
Universal Newborn Hearing Screening	416	93.251	65,115	272,250
Immunization Cooperative Agreements:				
COVID 19 Immunization Cooperative Agreements	457, 459, 567	93.268	-	3,455,129
Immunization Cooperative Agreements	457, 459, 567	93.268	-	18,332,977
Subtotal Immunization Cooperative Agreements			* -	21,788,106
Adult Viral Hepatitis Prevention and Control	397	93.270	-	143,716
Small Rural Hospital Improvement Grant Program:				
COVID 19 Small Rural Hospital Improvement Grant Program	300, 454	93.301	168,634	168,634
Small Rural Hospital Improvement Grant Program			95,234	95,234
Subtotal Small Rural Hospital Improvement Grant Program			263,868	263,868
National State Based Tobacco Control Programs	744	93.305	160,239	165,247
Early Hearing Detection and Intervention Information System (EHDI-IS)				
Surveillance Program	301	93.314	10,980	10,980
Epidemiology and Laboratory Capacity for Infectious Diseases:				
COVID 19 Epidemiology and Laboratory Capacity for Infectious Diseases	various	93.323	-	9,263,973
Epidemiology and Laboratory Capacity for Infectious Diseases	various	93.323	-	1,911,130
Subtotal Epidemiology and Laboratory Capacity for Infectious Diseases			* -	11,175,103

* Denotes Major Federal Program

Department of Health
State of Hawaii
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2021

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Project Number	Assistance Listing Number	Passed through to Subrecipients	Total Federal Expenditures
Department of Health and Human Services (Continued)				
State Health Insurance Assistance Program	403	93.324	\$ -	\$ 272,899
BOLD Public Health Program	773	93.334	45,065	45,065
Behavioral Risk Factor Surveillance System	747	93.336	363,587	370,785
COVID 19 Public Health Emergency Response: Cooperative Agreement for Emergency Response: Public Health Crisis Response:	706, 707, 708	93.354	*	3,107,761
National and State Tobacco Control Program	772	93.387	723,425	723,438
Improving the Health of Americans Through Prevention and Management of Diabetes and Heart Disease and Stroke	702	93.426	1,564,130	1,564,130
Food Safety and Security Monitoring Project	580	93.448	-	99,256
Community-Based Child Abuse Prevention Grants	270	93.590	125,959	272,273
Developmental Disabilities Basic Support and Advocacy Grants	240	93.630	-	514,086
COVID 19 Emergency Grants to Address Mental and Substance Use Disorders During COVID-19	519	93.665	804,914	858,846
State Public Health Approaches for Ensuring Quitline Capacity - funded in part by Prevention and Public Health Funds	701	93.735	-	1,000
Medicaid Cluster:				
COVID 19 State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	various	93.777	-	117,526
State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	various	93.777	-	3,852,828
Medical Assistance Program	662	93.778	-	642,608
Subtotal Medicaid Cluster			*	4,612,962
State Targeted Response to the Opioid Crisis	891	93.788	2,701,005	4,256,771
Maternal, Infant and Early Childhood Home Visiting Grant Program	602	93.870	*	4,345,161
National Bioterrorism Hospital Preparedness Program:				
COVID 19 National Bioterrorism Hospital Preparedness Program	435, 499	93.889	-	414,514
National Bioterrorism Hospital Preparedness Program	435, 499	93.889	1,137,627	1,379,108
Subtotal National Bioterrorism Hospital Preparedness Program			1,137,627	1,793,622
Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations	448	93.898	1,020,095	1,020,120
Grants to States for Operation of Offices of Rural Health	299	93.913	95,829	243,650
HIV Care Formula Grants (Ryan White HIV/AIDS Program Part B):				
COVID 19 HIV Care Formula Grants (Ryan White HIV/AIDS Program Part B)	293, 296	93.917	108,092	108,876
HIV Care Formula Grants (Ryan White HIV/AIDS Program Part B)	293, 296	93.917	312,945	6,514,108
			421,037	6,622,984

* Denotes Major Federal Program

Department of Health
State of Hawaii
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2021

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Project Number	Assistance Listing Number	Passed through to Subrecipients	Total Federal Expenditures
Department of Health and Human Services (Continued)				
HIV Prevention Activities - Health Department Based	266	93.940	\$ 843,030	\$ 1,524,568
Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	319	93.946	-	156,031
Block Grants for Community Mental Health Services	38202, 39202	93.958	* 1,508,101	2,733,839
Block Grants for Prevention and Treatment of Substance Abuse	38204, 39204	93.959	6,987,698	7,091,857
Preventive Health Services - Sexually Transmitted Diseases Control Grants	268	93.977	-	405,597
Mental Health Disaster Assistance and Emergency Mental Health	363, 665	93.982	734,108	760,184
Preventive Health and Health Services Block Grant	38203, 39203	93.991	464,048	1,051,839
Maternal and Child Health Services Block Grant to the States Improvement	38201, 39201	93.994	* -	2,039,233
Hawaii State Mental Health Data Infrastructure Grants for Quality Improvement	318	93.UNKNOWN	-	83,729
Hawaii Tobacco State Enforcement Contract	633	93.FAR 52.217-9	123,381	222,299
Electronic Death Registration	208	93.UNKNOWN	-	303,484
Payment to Hawaii for Treatment of Hansen's Disease	264	93.UNKNOWN	-	934,121
Prospective Comparison of TST vs. IGRAs	626	93.UNKNOWN	-	188,193
Total Department of Health and Human Services Programs			43,194,905	112,285,618
Department of Agriculture				
Direct Programs:				
Plant and Animal Disease, Pest Control, and Animal Care	599	10.025	-	77,406
Homeland Security Agricultural	598	10.304	-	21,808
Special Supplemental Nutrition Program for Women, Infants and Children:				
COVID 19 Special Supplemental Nutrition Program for Women, Infants and Children	various	10.557	733,816	2,387,072
Special Supplemental Nutrition Program for Women, Infants and Children	various	10.557	2,556,421	20,506,411
Subtotal Special Supplemental Nutrition Program for Women, Infants and Children			* 3,290,237	22,893,483
Child and Adult Care Food Program	295	10.558	75,769	123,232
WIC Grants To States (WGS)	790	10.578	252,973	253,200
Total Department of Agriculture Programs			3,618,979	23,369,129

* Denotes Major Federal Program

Department of Health
State of Hawaii
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2021

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Project Number	Assistance Listing Number	Passed through to Subrecipients	Total Federal Expenditures
Environmental Protection Agency				
Direct Programs:				
Air Pollution Control Program Support	233	66.001	\$ -	\$ 675,466
Surveys, Studies, Research, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	294	66.034	-	60,376
Multipurpose Grants to States and Tribes	236, 667	66.204		30,889
Water Pollution Control State, Interstate, and Tribal Program Support	231, 237, 601	66.419	-	1,763,291
State Public Water System Supervision	232	66.432	-	425,854
Water Quality Management Planning	16284	66.454	-	131,349
Capitalization Grants for Clean Water State Revolving Funds	various	66.458	* 12,306,000	12,306,000
Nonpoint Source Implementation Grants	231, 9290	66.460	-	1,100,607
Capitalization Grants for Drinking Water State Revolving Funds	22207	66.468	* 12,890,305	12,890,305
Beach Monitoring and Notification Program	8291	66.472	-	299,834
Performance Partnership Grants	330	66.605	-	190,158
Environmental Information Exchange Network Grant Program and Related Assistance	570	66.608	-	60,000
Toxic Substances Compliance Monitoring Cooperative Agreements	243	66.701	-	59,927
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	330	66.707	-	23,982
Hazardous Waste Management State Program Support	230	66.801	-	526,706
Superfund State, Political Subdivision, and Indian Tribe Site- Specific Cooperative Agreements	394	66.802	-	213,350
Underground Storage Tanks Prevention, Detection and Compliance Program	339	66.804	-	319,189
Leaking Underground Storage Tank Trust Fund Corrective Action Program	258	66.805	-	282,682
State and Tribal Response Program Grants	360	66.817	-	931,546
Total Environmental Protection Agency Programs			25,196,305	32,291,511
Department of Education				
Direct Program--				
Special Education - Grants for Infants and Families	213	84.181	370,688	2,470,250
Total Department of Education Programs			\$ 370,688	\$ 2,470,250

* Denotes Major Federal Program

Department of Health
State of Hawaii
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2021

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Project Number	Assistance Listing Number	Passed through to Subrecipients	Total Federal Expenditures
Department of Treasury				
Passed-through from the State of Hawaii--				
COVID 19 Coronavirus Relief Fund	various	21.019	* \$ -	\$ 72,189,141
Total Department of Treasury			-	72,189,141
Department of Homeland Security				
Direct Program--				
Crisis Counseling	660	97.032	43,577	43,577
Total Department of Homeland Security			43,577	43,577
Department of Defense				
Direct Program--				
State Memorandum of Agreement Program for the Reimbursement of Technical Services	245	12.113	-	405,225
Total Department of Defense Programs			-	405,225
Total Expenditures of Federal Awards			\$ 72,424,454	\$ 243,054,451

* Denotes Major Federal Program

Department of Health State of Hawaii

Notes to the Schedule of Expenditures of Federal Awards
Fiscal 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 State of Hawaii, Department of Health (the Department) under programs of the federal government for the fiscal 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* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Department, it is not intended to and does not present the financial position, change in net position, or cash flows of the Department.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

3. Loans Outstanding

The Department had the following loan balances outstanding at June 30, 2021. Loans made during the year are included in the federal expenditures presented in the schedule of expenditures of federal awards.

Program Title	ALN	Amount Outstanding
Capitalization Grants for Clean Water State Revolving Funds	66.458	\$ 40,115,521
Capitalization Grants for Drinking Water State Revolving Funds	66.468	\$ 35,738,828

4. Noncash Awards

The Department also receives noncash awards for the Immunization Cooperative Agreements Program. The Department expended approximately \$15,161,000 in vaccines for the Immunization Cooperative Agreements Program for the fiscal year ended June 30, 2021.

5. Indirect Cost Rate

The Department has elected not to use the 10-percent de minimus indirect cost rate 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, the business-type activities, each major fund, and the aggregate remaining fund information of the State of Hawaii, Department of Health (Department), as of and for the fiscal year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated March 16, 2022.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as Finding No. 2021-001 to be a material weakness.

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. We consider the deficiencies described in the accompanying schedule of findings and questions costs as Findings No. 2021-002 and 2021-003 to be significant deficiencies.

Compliance and Other Matters

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

Department's Response to Findings

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

Purpose of this Report

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

KMH LLP

KMH LLP

Honolulu, Hawaii
March 16, 2022

PART III

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



A Hawaii Limited Liability Partnership

**Report on Compliance for Each Major Federal Program and on Internal
Control over Compliance Required by 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 State of Hawaii, Department of Health's (Department's) 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 Department's major federal programs for the fiscal year ended June 30, 2021. The Department's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with 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 Department's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 Department's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

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

As described in the accompanying schedule of findings and questioned costs, the Department did not comply with requirements regarding the following:

Assistance Listing Number	Name of Federal Program	Compliance Requirement	Ref. No.
93.958	Block Grants for Community Mental Health	Reporting	2021-004
10.557	Special Supplemental Nutrition Program for Woman, Infants and Children	Cash Management	2021-006

Compliance with such requirements is necessary, in our opinion, for the Department 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 the Basis for Qualified Opinion paragraph, the Department complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal programs identified in the Basis for Qualified Opinion paragraph for the fiscal year ended June 30, 2021.

Unmodified Opinion on Each of the Other Major Federal Programs

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

Other Matters

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

Report on Internal Control Over Compliance

Management of the Department is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Department's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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 Department's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *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.

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 were not identified. We did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as Findings No. 2021-004 through 2021-007, that we consider to be material weaknesses.

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

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

KMH LLP

KMH LLP

Honolulu, Hawaii

March 16, 2022

PART IV

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**Department of Health
State of Hawaii**

Schedule of Findings and Questioned Costs
June 30, 2021

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? √ Yes ___ No

- Significant deficiency(ies) identified that are not considered to be material weaknesses? √ Yes ___ None reported

Noncompliance material to financial statements noted? ___ Yes √ No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? √ Yes ___ No

- Significant deficiency(ies) identified? ___ Yes √ None reported

Type of auditor’s report issued on compliance for major federal programs: Unmodified for all major federal programs except for Block Grants for Community Mental Health Services and Special Supplemental Nutrition Program for Woman, Infants and Children, which were qualified.

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

Department of Health State of Hawaii

Schedule of Findings and Questioned Costs
June 30, 2021

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

Identification of major federal programs:

ALN Number	Name of Federal Program
Department of Health & Human Services	
Aging Cluster:	
93.044	Special Programs for Aging – Title III Part B – Grants for Supportive Services and Senior Centers
93.045	Special Programs for Aging – Title III Part C – Nutrition Services
93.053	Nutrition Services Incentive Program
93.069	Public Health Emergency Preparedness
93.136	Injury Prevention and Control Research and State and Community Based Programs
93.268	Immunization Cooperative Agreements
93.323	Epidemiology and Laboratory Capacity for Infectious Diseases
93.354	Public Health Emergency Response
Medicaid Cluster:	
93.777	State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare
93.778	Medical Assistance Program
93.870	Maternal, Infant and Early Childhood Home Visiting Grant Program
93.958	Block Grants for Community Mental Health Services
93.994	Maternal and Child Health Services Block Grants to the States
Environmental Protection Agency	
66.458	Capitalization Grants for Clean Water State Revolving Funds
66.468	Capitalization Grants for Drinking Water State Revolving Funds
Department of Treasury	
21.019	Coronavirus Relief Fund
Department of Agriculture	
10.557	Special Supplemental Nutrition Program for Woman, Infants and Children

Dollar threshold used to distinguish between type A and type B programs:

\$3,000,000

Auditee qualified as low-risk auditee?

☐ Yes ☒ No

Department of Health State of Hawaii

Schedule of Findings and Questioned Costs
June 30, 2021

Section II – Financial Statement Findings

Finding No.: 2021-001 Tobacco Settlement Accrual

Type of Finding: Material Weakness

Criteria: In accordance with Governmental Accounting Standards Board 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 expenditures should be recognized in the accounting in which the fund liability is incurred.

Condition: During our audit, it was determined that accruals for tobacco settlement due to other State agencies were not appropriately evaluated, which resulted in the accruals for other governmental funds being overstated. We proposed and management accepted an adjustment to reduce the liabilities due to other State Agencies for approximately \$6.8M. As these accruals were related to previous fiscal years, the beginning net position as of July 1, 2020 was increased in the Department's financial statement as of June 30, 2021.

Context: Annual tobacco settlement funds are received by the Department and 100 percent of the funds are subsequently distributed to other State agencies and other entities in accordance with Act 118, SLH 2015. Amounts not paid by year-end are accrued. Management is responsible for reviewing the tobacco settlement accrual to ensure that amounts are accurate. Through the review of the rollforward of the tobacco settlement accrual and discussion with management, we noted that there were unpaid liabilities carried forward from previous fiscal years that were overstated.

Cause: Management did not perform a diligent review of the tobacco settlement accruals.

Effect: The lack of diligence in review increases the risk of material misstatement as demonstrated by the results of this year's audit.

Identification as a Repeat Finding, if applicable: Not applicable

Recommendation: We recommend that management perform a more diligent review of its accruals and work with the program to determine the accuracy of the accruals.

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

Department of Health State of Hawaii

Schedule of Findings and Questioned Costs
June 30, 2021

Section II – Financial Statement Findings (continued)

Finding No.: 2021-002 Reliance on Third Party Certifications

Type of Finding: Significant Deficiency

Criteria: Section 342G-105, HRS, states that payment of the deposit beverage container fee and deposits shall be made monthly, based on inventory reports of the deposit beverage distributors. All deposit beverage distributors shall submit to the Department documentation in sufficient detail that identifies the net number of deposit beverage containers sold, donated, or transferred, by container size and type.

In addition, Section 342G-110, HRS, specifies that the deposit on each filled deposit beverage container shall be paid by the beverage distributor, who manufactures or imports beverages in deposit beverage containers. Beverage distributors shall also pay a deposit beverage container fee and register with the State.

Section 342G-119, HRS, specifies that the Department shall pay certified redemption centers handling fees and deposit refunds based on collection reports submitted by the redemption centers. The redemption reports include the number or weight of deposit beverage containers of each material type accepted at the redemption center for the reporting period; the amount of refunds paid out by material type; the number or weight of deposit beverage containers of each material type transported out of state or to a permitted recycling facility; and copies of out-of-state transport and weight receipts or acceptance receipts from permitted recycling facilities. Additionally, Section 11-282-47, Hawaii Administrative Rules, states that the Department shall pay certified redemption centers handling fees and refund values based on reports submitted by the redemption centers to the Department.

Section 342G-103, HRS, requires all beverage distributors operating within the State to register with the Department and maintain records reflecting the manufacture of their beverages in deposit beverage containers as well as the importation and exportation of deposit beverage containers. The records shall be made available, upon request, for inspection by the Department.

Similarly Section 342G-121, HRS, requires distributors and redemption centers to make their records available upon request by the Department, a duly authorized agent of the Department, or the Office of the Auditor.

Department of Health State of Hawaii

Schedule of Findings and Questioned Costs
June 30, 2021

Section II – Financial Statement Findings (continued)

Condition: The Deposit Beverage Container Program (Program) receives beverage container deposits and container fees from distributors and refunds deposits and pays handling fees to redemption centers based on certified information. The Program does not have procedures or processes in place to validate the information being provided by redemption centers and distributors and relies solely on their certifications.

Context and Cause: As noted below, this is a recurring finding. The Department is still in progress with its corrective action plans.

Effect: Overreliance on the self-reporting by distributors and redemption centers may result in underpayments on deposits and the related container fees received by the Department to administer the program, overpayments of deposit refunds and handling fees to redemption centers, and an overstated redemption rate. An overstated redemption rate could result in a misstatement in the Department's financial statements, as well as higher container fees for consumers to support the program.

The Program could mitigate the risk of fraud (underpayments by distributors and overpayments to redemption centers) by implementing a systematic process for monitoring the activities of and reports submitted by distributors and redemption centers. According to management, the Program has been unable to establish a systematic monitoring process due to insufficient staff positions and turnover.

Identification as a Repeat Finding, if applicable: See finding 2020-002 included in the Summary Schedule of Prior Audit Findings.

Recommendation: We recommend that the Program perform the following: (1) develop a risk-based process to select distributor and redemption center reports submitted to the Program to audit on a periodic basis; (2) summarize the results of distributor and redemption center audits and assess whether enforcement actions should be considered to ensure amounts that are being reported are appropriate; (3) modify the Program requirements in order to increase distributors' accountability for information provided to the Program; and (4) for redemption centers, the Program should consider having all redemption centers install reverse vending machines or some type of "mechanical devices" at all locations.

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

Department of Health State of Hawaii

Schedule of Findings and Questioned Costs
June 30, 2021

Section II – Financial Statement Findings (continued)

Finding No.: 2021-003 Schedule of Expenditures of Federal Awards (SEFA) Preparation

Type of Finding: Significant Deficiency

Criteria: The Office of Management and Budget (OMB) issued Uniform Guidance, which requires nonfederal entities that expend \$750,000 or more in federal awards a year to have a Single Audit conducted on its federal award programs and SEFA. 2 CFR 200.510(b) states "the auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended... At a minimum, the schedule must: (1) List individual Federal programs by Federal agency. (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity must be included (3) Provide total Federal awards expended for each individual Federal program and the Assistance Listings Number or other identifying number when the Assistance Listings information is not available. For a cluster of programs also provide the total for the cluster. (4) include the total amount provided to subrecipients from each Federal program..."

Condition: During the audit, we noted the following adjustments to increase (decrease) the total amount provided to subrecipients originally provided for the following programs:

Assistance Listing No.	Program Name	Adjustment
93.136	Injury Prevention and Control Research and State and Community Based Programs	\$(632,787)
93.958	Block Grants for Community Mental Health Services	1,047,049

Context: Due to the diversity and number of Federal programs, the Administrative Services Office ("ASO") relies on program heads to properly identify and classify Federal expenditures and expenditures passed through to subrecipients. Program heads and personnel are required to submit total Federal expenditures and the portion of those Federal expenditures that are passed through to subrecipients to ASO for final financial reporting.

**Department of Health
State of Hawaii**

Schedule of Findings and Questioned Costs
June 30, 2021

Section II – Financial Statement Findings (continued)

Cause: Incorrect amounts in the SEFA were primarily caused by a lack of verification of final program expenditures passed through to subrecipients at the program level. In one instance, verification of vendor costs as passed through to subrecipients was not completed until after the SEFA was completed. In another instance, there was a lack of communication between program grant coordinators and program accountants due to turnover in personnel.

Effect: The lack of verification resulted in inaccurate expenditures passed through to subrecipients being reported in the SEFA.

Identification as a Repeat Finding, if applicable: Not applicable

Recommendation: We recommend that the Department of Health revisit their process of compiling and verifying the Schedule of Expenditures of Federal Awards, including the amounts reported as passed through to subrecipients.

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

Department of Health State of Hawaii

Schedule of Findings and Questioned Costs
June 30, 2021

Section III – Federal Award Findings and Questioned Costs

Finding No.: 2021-004 **Reporting**
Federal Agency: Department of Health and Human Services (DHHS)
Assistance Listing No.: 93.958
Requirement: Reporting
Type of Finding: Material Noncompliance and Material Weakness
Program: Block Grants for Community Mental Health Services
Federal award no. and year: 2B09SM010015-19 10/01/18 – 09/30/20

Criteria: 2 CFR Section 200.327 states that "(financial) information must be collected with the frequency required by the terms and conditions of the Federal award, but no less frequently than annually nor more frequently than quarterly except in unusual circumstances." Under this reporting requirement, the program must submit a Federal Financial Report (FFR) within 90 days after the close of the statutory grant period.

Under 2 CFR Appendix A to Part 170, recipients (i.e., direct recipients) of grants or cooperative agreements are required to report first-tier subawards of \$30,000 or more to the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS).

Condition: We noted one FFR was timely submitted and the program did not report first-tier subawards of \$30,000 or more to FSRS.

Context: The program was required to submit one FFR during FY2021. During the audit, we noted that the FFR was submitted 211 days after the close of the statutory grant period.

During the audit, we were also informed by Department personnel that required information on first-tier subawards of \$30,000 or more were not reported to FSRS. The following table summarizes our findings:

Transactions Tested	Subaward not Reported	Report not Timely	Subaward Amount Incorrect	Subaward Missing Key Elements
5	5	5	-	-
Dollar Amount of Tested Transactions	Subaward not Reported	Report not Timely	Subaward Amount Incorrect	Subaward Missing Key Elements
\$943,068	\$943,068	\$943,068	-	-

We tested all first-tier subawards that amounted to \$30,000 or more during FY2021.

**Department of Health
State of Hawaii**

Schedule of Findings and Questioned Costs
June 30, 2021

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

Cause: Based on further inquiry with Department personnel, we noted that the delay in submitting the FFR and failure to report first-tier subawards to FSRS was caused by a lack of personnel available to monitor reporting requirements and complete reporting requirements timely.

Effect: Failure to timely submit reports and report first-tier subawards of \$30,000 or more to FSRS results in noncompliance with the reporting requirement.

Questioned Costs: None

Identification as a Repeat Finding, if applicable: See finding 2020-003 included in the Summary Schedule of Prior Audit Findings.

Recommendation: We recommend program management be more diligent in following Federal deadlines in order to ensure compliance with Federal requirements.

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

Department of Health State of Hawaii

Schedule of Findings and Questioned Costs
June 30, 2021

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

Finding No.: 2021-005	Monitoring Procedures and Risk Assessment Process
Federal Agency:	Department of Health and Human Services (DHHS)
Assistance Listing No.:	93.958
Requirement:	Subrecipient Monitoring
Type of Finding:	Material Weakness
Program:	Block Grants for Community Mental Health Services
Federal award no. and year:	2B09SM010015-19 10/01/18 – 09/30/20

Criteria: In accordance with 2 CFR section 200.331, all pass-through entities must 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; and that subaward performance goals are achieved. In addition, all pass-through entities must evaluate each subrecipient's risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring.

Condition: Although the program did not have any subrecipients that required a single audit report to be obtained during the fiscal year, we were informed by program personnel that the program was unable to fill vacant positions that would monitor this compliance requirement. As a result, the control over this compliance requirement was not in place during the current fiscal year.

Context: The program had nine subrecipients in FY2021, none of which expended more than \$750,000 during the year. However, the program did not have any personnel monitoring subrecipient expenditures and reviewing single audit reports as applicable.

Cause: According to management, due to a hiring freeze, the program was unable to hire staff who are qualified to conduct subrecipient monitoring.

Effect: Failure to properly monitor subrecipients could lead to noncompliance with the subrecipient monitoring requirement.

Questioned Costs: None

Identification as a Repeat Finding, if applicable: See finding 2020-004 included in the Summary Schedule of Prior Audit Findings.

**Department of Health
State of Hawaii**

Schedule of Findings and Questioned Costs
June 30, 2021

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

Recommendation: We recommend the Department allocate adequate resources to follow its procedures and internal controls to ensure compliance with Federal requirements.

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

Department of Health State of Hawaii

Schedule of Findings and Questioned Costs
June 30, 2021

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

Finding No.: 2021-006	Cash Management
Federal Agency:	Department of Agriculture
Assistance Listing No.:	10.557
Requirement:	Cash Management
Type of Finding:	Material Noncompliance and Material Weakness
Program:	Special Supplemental Nutrition Program for Woman, Infants, and Children
Federal award no. and year:	7HI700HI7 10/01/2019 – 09/30/2020 10/01/2020 – 09/30/2021 7HI700HI1 10/01/2019 – 09/30/2021

Criteria: In accordance with 2 CFR section 200.305(a), for states, payments are governed by Treasury-State Cash Management Improvement Act (CMIA) agreement, for programs specified in the agreement. The federal program noted above, was subject the agreement. The CMIA agreement provides guidance on funding techniques that are required to be utilized by the program. In accordance with the CMIA agreement, for Direct Administrative and Payroll costs, a pre-issuance technique, which requires payments to be distributed within three business days of draw down of funds.

Condition: During the testing of the Department's cash management procedures, it was determined that payments were not distributed within three business days of the draw down of funds, as required by the CMIA agreement. For the items tested, the time elapsed between draw down and payment ranged to 5 to 71 days.

Context: During the fiscal year ended June 30, 2021, the Department expended \$8,319,102 (excluding food expenditures).

Cause: The Department draws down federal funds that it estimates will be needed based on the expenditures that must be paid. However, since deposits must be posted prior to the processing of payments or disbursing of the funds, it is difficult for the Department to disburse federal funds in accordance with the CMIA Agreement. Also, the State's payment process requires all State departments to process payments through DAGS resulting in processing delays.

Effect: Noncompliance with federal regulations could result in a loss of funding that may jeopardize the operations of the Department's federally funded programs.

**Department of Health
State of Hawaii**

Schedule of Findings and Questioned Costs
June 30, 2021

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

Questioned Costs: None

Identification as a Repeat Finding, if applicable: See finding 2020-005 included in the Summary Schedule of Prior Audit Findings.

Recommendation: We recommend that the Department work with DAGS and the Department of Budget and Finance to ensure compliance with established standard and timely disbursement of federal funds in accordance with CMIA Agreement.

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

Department of Health State of Hawaii

Schedule of Findings and Questioned Costs
June 30, 2021

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

Finding No.:	2021-007	Monitoring Procedures and Risk Assessment Process
Federal Agency:		Department of Health and Human Services (DHHS)
Assistance Listing No.:		93.136
Requirement:		Subrecipient Monitoring
Type of Finding:		Material Weakness
Program:		Injury Prevention and Control Research and State and Community Based Programs
Federal award no. and year:	NU17CE925009-01	09/01/19 – 08/31/20

Criteria: In accordance with 2 CFR section 200.331, all pass-through entities must 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; and that subaward performance goals are achieved. In addition, all pass-through entities must evaluate each subrecipient's risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring.

In accordance with 2 CFR sections 200.332(d) through (f), all pass-through entities must perform monitoring that includes reviewing financial and programmatic reports; following-up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the federal award detected through audits, on-site reviews, and other means; and issuing a management decision for audit findings pertaining to the federal award provided to the subrecipient.

Condition: Although the program obtained the required single audit report from the subrecipient, during our audit management was not able to provide documentation that the review and evaluation of the report was performed.

Context: The program had seven subrecipients in FY 2021, including one subrecipient that expended more than \$750,000 during the year.

Cause: According to management, the review and evaluation of the single audit report was not completed due to a lack of personnel.

Effect: Failure to properly monitor subrecipients may result in noncompliance with the subrecipient monitoring requirement.

Questioned Costs: None

**Department of Health
State of Hawaii**

Schedule of Findings and Questioned Costs
June 30, 2021

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

Identification as a Repeat Finding, if applicable: Not applicable

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

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

SUMMARY OF PRIOR AUDIT FINDINGS

Department of Health

State of Hawaii

Summary Schedule of Prior Audit Findings
June 30, 2021

STATUS REPORT

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

Recommendations

Status

Part II – Financial Statement Findings

2020-001 Clean Air Permit Fees – Untimely Deposits and Lack of Reconciliation

Management should ensure timely deposits of clean air permit fees received and reconcile fees from the detailed listing of clean air permit fees collected to Financial Accounting Management Information Systems (FAMIS).

The Department's Clean Air Branch (CAB) placed an emphasis on recording and depositing the fee checks as soon as possible and established a process to reconcile its detailed listing with Treasury Deposit Records from Environmental Resources Office and FAMIS. In FY 2021, CAB had timely deposit and reconciled its deposit listing internally and to FAMIS. CAB expects to continue to reconcile its account in a timely manner going forward.

This finding is no longer applicable.

2020-002 Reliance on Third Party Certifications

We recommend that the Program implement a systemic process and direct Department personnel to oversee distributors and redemption centers, including conducting regular audits of reports submitted and payments made by distributors and reports submitted for deposit refund and handling fee requests from redemption centers.

In Fall 2020, OSWM implemented a pilot project to review individual customer receipts from certain redemption centers to check for discrepancies at a granular level. In February 2021, OSWM filled its vacant inspector position and increased the frequency and duration of its inspections at redemption center facilities to provide increased presence, assist the public with questions and concerns and ensure that the redemption centers are following proper procedures. OSWM also increased the frequency of conducting materials inspection at redemption centers to better track inventory on hand.

Department of Health
State of Hawaii

Summary Schedule of Prior Audit Findings
June 30, 2021

Recommendations

Status

Part II – Financial Statement Findings (continued)

2020-002 Reliance on Third Party Certifications (continued)

OSWM has received approval from the Governor to contract for distributor inspection and is developing a scope of services to solicit for this assistance. A Request for Proposals (RFP) or other method of procurement will be utilized.

In February 2021, OSWM executed a task order with the DOH Environmental Management Division's software developer for a multi-year/multi-phase project to modernize its data management and reporting system. The software development completed tasks to establish a foundation module and migrate old OSWM online function and data to new system. Tasks are ongoing to digitize inspection reports to allow inspectors to file reports and violations from the field.

Corrective action is ongoing. Refer to finding 2021-002.

Department of Health

State of Hawaii

Summary Schedule of Prior Audit Findings
June 30, 2021

Recommendations

Status

Part III – Federal Award Findings and Questioned Costs

2020-003 Reporting

We recommend program management be more diligent in following Federal deadlines in order to ensure compliance with Federal requirements.

The Department's Adult Mental Health Division (AMHD) is recruiting for one Accountant and requesting for approval to recruit for two additional Accountant positions to fill vacant positions in its Fiscal Section. AMHD is still recruiting for three Accountant positions.

Corrective action is ongoing. Refer to finding 2021-004.

2020-004 Monitoring Procedures and Risk Assessment Process

We recommend program management be more diligent in following its procedures and internal controls to ensure compliance with Federal requirements.

The Department's AMHD established process to send reminder letters to providers notifying them to submit required reports three months prior to the end of the contract year. AMHD staff will review and evaluate each report. AMHD was unable to hire staff who are qualified to conduct subrecipient monitoring. AMHD is planning to procure this service for FY 2022.

Corrective action is ongoing. Refer to finding 2021-005.

Department of Health
State of Hawaii

Summary Schedule of Prior Audit Findings
June 30, 2021

Recommendations

Status

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

2020-005 Cash Management

We recommend that the Department work with DAGS and B&F to ensure compliance with established standard and timely disbursement of federal funds in accordance with CMIA Agreement

The Department's Woman, Infants and Children (WIC) revised its Standard Operating Procedure to ensure that there is adequate funding for disbursement and timely request for draws which are reviewed by appropriate personnel.

Corrective action taken, but we noted through our testing that finding still applicable. Refer to finding 2021-006.

PART VI
CORRECTIVE ACTION PLAN

DAVID Y. IGE
GOVERNOR OF HAWAII



ELIZABETH A. CHAR, M.D.
DIRECTOR OF HEALTH

STATE OF HAWAII
DEPARTMENT OF HEALTH
P. O. BOX 3378
HONOLULU, HI 96801-3378

In reply, please refer to:
File:

ASO-F/22-270

March 16, 2022

Mr. Leslie H. Kondo, State Auditor
Office of the Auditor, State of Hawaii
465 S. King Street, Room 500
Honolulu, Hawaii 96813

Subject: Response to Draft Report "Financial Audit of the Department of Health, State of Hawaii, for the Fiscal Year Ended June 30, 2021".

Dear Mr. Kondo:

Attached are the Department of Health's comments of the audit findings for the above mentioned audit of the Department of Health.

We appreciate the opportunity to comment on the report.

Sincerely,

Elizabeth A. Char, M.D.
Director of Health

Attachment

State of Hawaii
Department of Health
Corrective Action Plan Updates for Findings and Recommendations
For the State Fiscal Year Ended June 30, 2021

Page(s), Finding	Corrective Action Plans Updates, Status, Responding Official
P93 2021-001	<p><u>Tobacco Settlement Accrual</u></p> <p><u>Corrective Action Plan:</u> The management will practice timely distribution of the funds in the fiscal year the revenue is received pursuant to Act 118, SLH 2015, and complete the requirements of Act 12, SLH 2017 which were in effect from calendar year 2017 to 2022</p> <p><u>Implementation Date:</u> The corrective action plan will begin immediately in fiscal year 2021-2022 with the payments divided in at least two installments starting April 15, 2022 for distribution.</p> <p><u>Responding Official:</u> Lola Irvin, Administrator, Chronic Disease Prevention & Health Promotion Branch</p>
P94-95 2021-002	<p><u>Reliance on Third Party Certifications-The Deposit Beverage Container Program</u></p> <p><u>Corrective actions continue to be ongoing:</u> In February 2021, the Office of Solid Waste Management (OSWM) filled its vacant Deposit Beverage Container (DBC) lead inspector position and in March 2022 OSWM filled one of its two remaining vacant DBC inspector positions. OSWM is also currently recruiting to fill the other vacant DBC inspector position. Unfortunately, Act 88, SLH 2021 defunded these two vacant DBC inspector positions and eliminated a third vacant inspector position that was being redescribed into a supervising inspector for the section. This legislative session OSWM is requesting the restoration of funding for the two defunded positions, and after all vacant positions are filled, OSWM will request restoring the eliminated position as a section supervisor. Filling the remaining vacant inspector positions is foundational to meeting the audit recommendations. A fully staffed enforcement section will perform significantly more inspections at redemption centers, expeditiously resolve complaints, and conduct enforcement actions on redemption centers and distributors.</p> <p>In July 2021 OSWM increased the frequency of inventory inspections at redemption centers to document and track the type and amount of deposit beverage containers collected and stored by the redemption centers. What was once an annual inspection is now performed at every redemption</p>

	<p>center on a quarterly basis. Inventories (i.e., bales of redeemed deposit beverage containers and corresponding estimated weights) documented by OSWM inspectors are then cross-referenced by OSWM accountants to verify redemptions reported by the redemption centers. OSWM accountants also perform reconciliations between reported redemptions and documented weight tickets from independent end users to provide a certain level of assurance about the accuracy of the number of containers that are claimed.</p> <p>OSWM has also revised its redemption center certification application to require that all redemption center applicants submit an operational plan that describes methods to ensure that all customer receipts correlate with collected deposit beverage containers to prevent fraud. This requirement applies to all new redemption center certification applications and existing certified redemption centers will submit fraud prevention plans when renewing expired certifications. OSWM inspectors will be responsible for enforcing that the fraud prevention plans are submitted, are actionable, and are implemented by the redemption centers.</p> <p>OSWM has drafted an RFP to review and analyze distributor reports selected on a risk-based process and will solicit a vendor to assist OSWM with these services in mid-2022.</p> <p><u>Implementation Date:</u> In January 2021, OSWM executed a task order with the DOH Environmental Management Division's software developer to begin a multi-year/multi-phase project to modernize its data management and reporting systems. The first phase, which concluded at the end of 2021, developed a foundational "warehouse" to store and interface with all OSWM program data and implemented mapping functions. The second phase will develop a mobile application for OSWM and county inspectors to use while conducting inspections. This task order was recently executed, and work will start soon. Future phases include developing an online portal for distributor reports and payments in late-2022 and the digitization of redemption center reporting after the distributor component is completed. Reports that are currently submitted to OSWM via hard copy will eventually be submitted online. This will reduce errors, improve data management, and free staff time to help analyze data for reported inconsistencies.</p> <p><u>Responding Official:</u> Michael Burke, Solid Waste Coordinator, Solid and Hazardous Waste Branch Office of Solid Waste Management</p>
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<p>P96-97 2021-003</p>	<p><u>Schedule of Expenditures of Federal Awards (SEFA) Preparation</u></p> <ul style="list-style-type: none"> • 93.136 Injury Prevention and control Research and State and Community Based Programs • 93.958 Block Grants for community Mental Health Services <p><u>Corrective Action Plan:</u> A checklist will be used to verify that entities are correctly identified as subrecipients so that expenditures passed through to subrecipients are accurately reported in the SEFA. Journal vouchers and credit transactions will also be reviewed to determine if the transactions affect any expenditures passed through to subrecipients.</p> <p><u>Implementation Date:</u> June 1, 2022</p> <p><u>Responding Official:</u> Amy Curtis/AMHD Administrator/AMHD and Amy Yamaguchi/Administrative Officer/Adult Mental Health Division (AMHD)</p>
<p>P98-99 2021-004</p>	<p><u>Reporting-Block Grants for Community Mental Health Services</u></p> <p><u>Corrective Action Plan:</u> AMHD has contracted with two accountants to assist with grant activities including preparation of FFRs. Notices of Award will also be reviewed to determine if they include any new reporting requirements. AMHD expects to meet future reporting requirements with the assistance of the contracted accountants.</p> <p><u>Implementation Date:</u> April 1. 2022</p> <p><u>Responding Officials:</u> Amy Curtis/AMHD Administrator/AMHD and Amy Yamaguchi/Administrative Officer/AMHD</p>
<p>P100-101 2021-005</p>	<p><u>Monitoring Procedures and Risk Assessment Process-Block Grants for Community Mental health Services</u></p> <p><u>Corrective Action Plan:</u> AMHD has contracted with two accountants to assist with grant activities including monitoring of subrecipients. AMHD will send reminder letters to providers notifying them of submitting required reports. The contracted accountants will review and evaluate each single audit report and a checklist will be completed and submitted to the AMHD Administrator for final review and approval. AMHD expects to meet future</p>

	<p>monitoring requirements with the assistance of the contracted accountants.</p> <p><u>Implementation Date:</u> April 1, 2022</p> <p><u>Responding Officials:</u> Amy Curtis/AMHD Administrator/AMHD and Amy Yamaguchi/Administrative Officer/AMHD</p>
P102-103 2021-006	<p><u>Cash Management-Special Supplemental Nutrition Program for Woman, Infants, and Children (WIC)</u></p> <p><u>Corrective Action Plan:</u> The root cause of the finding presented in the “Draft Schedule of Findings” is beyond WIC’s Area of Responsibility once the Accounting Unit submits approved invoices to ASO/DAGS for processing and payment. As the causal explanation states, “the deposit of Treasury funds to the appropriate State Account must be posted as soon as invoices are submitted to ensure funds are available for disbursement”.</p> <p>It should also be noted, that two of the test items that were delayed 71 days may partially be attributable to WIC Administrative Officer and Accountant positions that were vacated in March 2020 and July 16, 2020 respectively.</p> <p>A few months after the new Administrative Officer was hired in 2020, an invoice approval SOP and workflow were implemented to ensure all invoices are tracked from receipt to submission to ASO. The SOP includes a time standard to have all complete and accurate invoices approved and submitted to ASO in seven days or less.</p> <p>An invoice tracking log was also created to track invoices through the workflow. The Accountant meets with the Administrative Officer weekly to review the log and explain any items that exceed established time standards.</p> <p>Implementation Date: December 2020.</p> <p><u>Responding Officials:</u> Melanie Murakami/Public Health Program Manager and Paul Uchima/WIC Services Administrative Officer</p>
P104-105 2021-07	<p><u>Monitoring Procedures and Risk Assessment Process-Injury Prevention and Control Research and State and Community Based Programs</u></p>

	<p><u>Corrective Action Plan:</u> AMHD has contracted with two accountants to assist with grant activities including monitoring of subrecipients. AMHD will send reminder letters to providers notifying them of submitting required reports. The contracted accountants will review and evaluate each single audit report and a checklist will be completed and submitted to the AMHD Administrator for final review and approval. AMHD expects to meet future monitoring requirements with the assistance of the contracted accountants.</p> <p><u>Implementation Date:</u> April 1, 2022</p> <p><u>Responding Officials:</u> Amy Curtis/AMHD Administrator/AMHD and Amy Yamaguchi/Administrative Officer/AMHD</p>
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