



Department of Human Services State of Hawaii

Financial and Compliance Audit

June 30, 2023

Submitted by
The Auditor
State of Hawaii



Department of Human Services
State of Hawaii
Index
June 30, 2023

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PART I
Financial Statements



Report of Independent Auditors

The Auditor
State of Hawaii

Opinions

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Hawaii, Department of Human Services (the "Department"), as of and for the year ended June 30, 2023 and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the index.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Department, as of June 30, 2023, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Department, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matters


As discussed in Note 1, the financial statements of the Department are intended to present the financial position and the changes in financial position of only that portion of the governmental activities and each major fund 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, 2023, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management 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 and for 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.

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In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Department's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.


In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Department's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 15 and budgetary comparison schedules for the General Fund and Special Revenue Funds on pages 44 through 47 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Supplementary 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 Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and are presented for purposes of additional analysis and are not a required part of the basic financial statements. As described in Note 1 to the schedule of expenditures of federal awards, the accompanying schedule of expenditures of federal awards was prepared 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.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2024 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 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.

Accuity LLP

Honolulu, Hawaii
March 28, 2024

Department of Human Services
State of Hawaii
Management’s Discussion and Analysis (Unaudited)
June 30, 2023

This discussion and analysis of the financial performance of the Department of Human Services (the “Department”) provides an overview of the financial activities of the Department for the year ended June 30, 2023. The intent of this discussion is to allow management to provide an objective and easily readable analysis of the financial activities of the Department based on currently known facts, decisions, or conditions. Readers are encouraged to consider the information presented here in conjunction with the basic financial statements and other supplementary information.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

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

Government-wide Financial Statements

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

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

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

Fund Financial Statements

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

Department of Human Services
State of Hawaii
Management's Discussion and Analysis (Unaudited)
June 30, 2023

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

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

Notes to the Basic Financial Statements

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

Department of Human Services
State of Hawaii
Management’s Discussion and Analysis (Unaudited)
June 30, 2023

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE FINANCIAL STATEMENTS

The following table presents a condensed government-wide statement of net position of the Department as of June 30, 2023 and 2022.

Summary Schedule of Net Position
June 30, 2023 and 2022

	Governmental Activities		2023 – 2022	
	2023	2022	Increase (Decrease)	Percentage Change
Assets				
Current	\$ 456,350,085	\$ 426,151,349	\$ 30,198,736	7.1 %
Capital assets, net	82,001,079	78,938,307	3,062,772	3.9 %
Total assets	<u>\$ 538,351,164</u>	<u>\$ 505,089,656</u>	<u>\$ 33,261,508</u>	6.6 %
Liabilities				
Current liabilities	\$ 309,250,905	\$ 366,636,593	\$ (57,385,688)	(15.7)%
Noncurrent liabilities	10,307,507	10,784,199	(476,692)	(4.4)%
Total liabilities	<u>319,558,412</u>	<u>377,420,792</u>	<u>(57,862,380)</u>	(15.3)%
Net position				
Net investment in capital assets	82,001,079	78,938,307	3,062,772	3.9 %
Unrestricted	136,791,673	48,730,557	88,061,116	180.7 %
Total net position	<u>218,792,752</u>	<u>127,668,864</u>	<u>91,123,888</u>	71.4 %
Total liabilities and net position	<u>\$ 538,351,164</u>	<u>\$ 505,089,656</u>	<u>\$ 33,261,508</u>	6.6 %

As noted earlier, an analysis of net position over time may be a useful indicator of whether a government entity’s financial condition is growing stronger or weakening. During the fiscal year ended June 30, 2023, the combined net position of the Department increased by approximately \$91.1 million.

The unrestricted net position of the Department was approximately \$136.8 million as of June 30, 2023. The largest liabilities as of June 30, 2023 are the federal expenditures incurred but not yet reimbursed by the federal government as of June 30, 2023 and the estimated amount of medical assistance service provided as of June 30, 2023, for which the related claims and capitation fees will be processed and paid subsequent to June 30, 2023. For the unreimbursed federal expenses as of June 30, 2023 of \$71.6 million, the majority is for the medical assistance program for \$17.6 million and the General Welfare program for \$32.1 million, which will be received after June 30, 2023. Of the estimated \$77.2 million of medical assistance payable, the State’s share of these costs is approximately \$27.8 million. The estimated federal share of these costs to be paid in the future was recorded as intergovernmental revenues in the current fiscal year and is included in the balance due from other governments. In addition to the estimated medical assistance payable, the liability for compensated absences totaling approximately \$16.0 million as of June 30, 2023 is not funded by state allotments until the employee uses the earned leave or is paid out upon termination. Therefore, there are no assets currently available to the Department to pay for these liabilities as of June 30, 2023.

Department of Human Services
State of Hawaii
Management’s Discussion and Analysis (Unaudited)
June 30, 2023

The Department reported a total of approximately \$82.0 million in net position invested in capital assets as of June 30, 2023. Although the Department is not the legal owner of the state buildings that are reported as part of its capital assets, the portion of the state facilities used by the Department are required to be reported as part of its capital assets. The Department uses these capital assets to provide services; consequently, these assets are not available for future spending and the related annual depreciation expense of the cost of these facilities is included in the statement of activities for the year ended June 30, 2023.

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

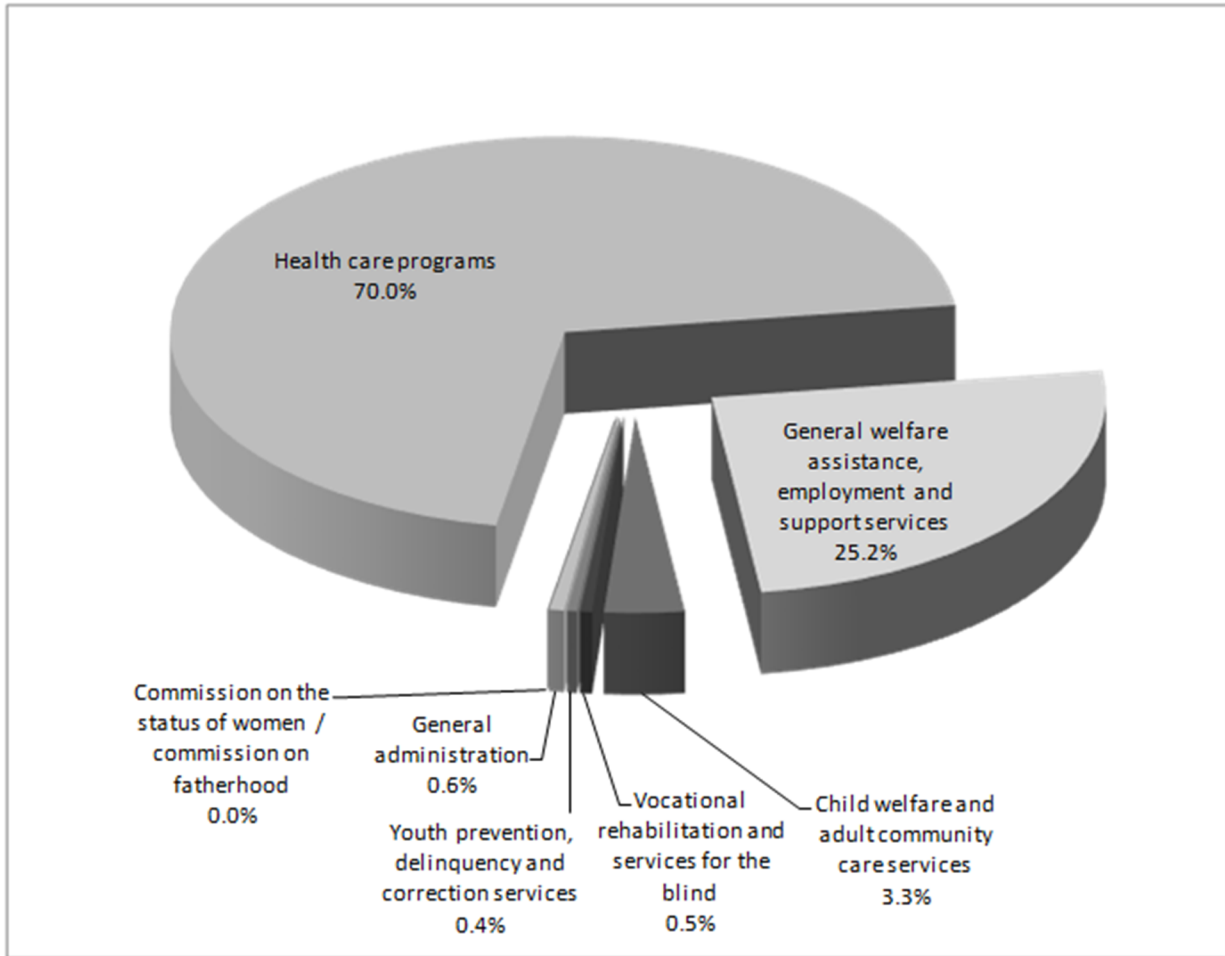
Summary Schedule of Changes in Net Position
Years Ended June 30, 2023 and 2022

	Governmental Activities		2023 – 2022	
	2023	2022	Increase (Decrease)	Percentage Change
Revenues				
Program revenues	\$3,696,263,686	\$3,590,859,993	\$ 105,403,693	2.9 %
General revenues	<u>1,537,113,625</u>	<u>1,421,505,722</u>	<u>115,607,903</u>	8.1 %
Total revenues	<u>5,233,377,311</u>	<u>5,012,365,715</u>	<u>221,011,596</u>	4.4 %
Expenses				
Health care programs	3,599,676,540	3,454,746,074	144,930,466	4.2 %
General welfare assistance, employment and support services	1,295,787,556	1,377,452,180	(81,664,624)	(5.9)%
Child welfare and adult community care services	169,941,926	163,042,385	6,899,541	4.2 %
General administration	32,420,259	23,201,731	9,218,528	39.7 %
Vocational rehabilitation and services for the blind	25,657,547	23,855,921	1,801,626	7.6 %
Youth prevention, delinquency and correction services	18,603,637	19,099,720	(496,083)	(2.6)%
Commission on the status of women / commission on fatherhood	<u>165,958</u>	<u>209,688</u>	<u>(43,730)</u>	(20.9)%
Total expenses	<u>5,142,253,423</u>	<u>5,061,607,699</u>	<u>80,645,724</u>	1.6 %
Change in net position	<u>\$ 91,123,888</u>	<u>\$ (49,241,984)</u>	<u>\$ 140,365,872</u>	(285.1)%

The total cost of all programs and services was approximately \$5.1 billion, a 1.6% increase from the prior fiscal year. Health care and general welfare assistance programs comprised 70.0% and 25.2%, respectively, of the total costs.

**Department of Human Services
State of Hawaii
Management's Discussion and Analysis (Unaudited)
June 30, 2023**

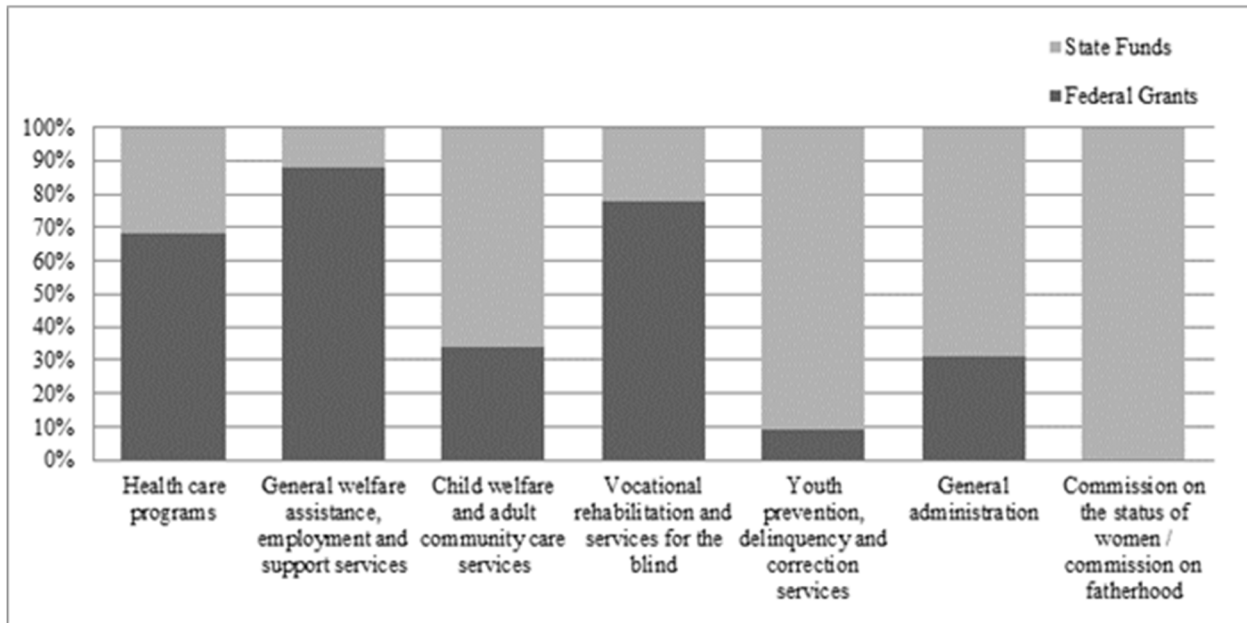
The following chart presents each major activity as a percent of the total cost of all Department activities:



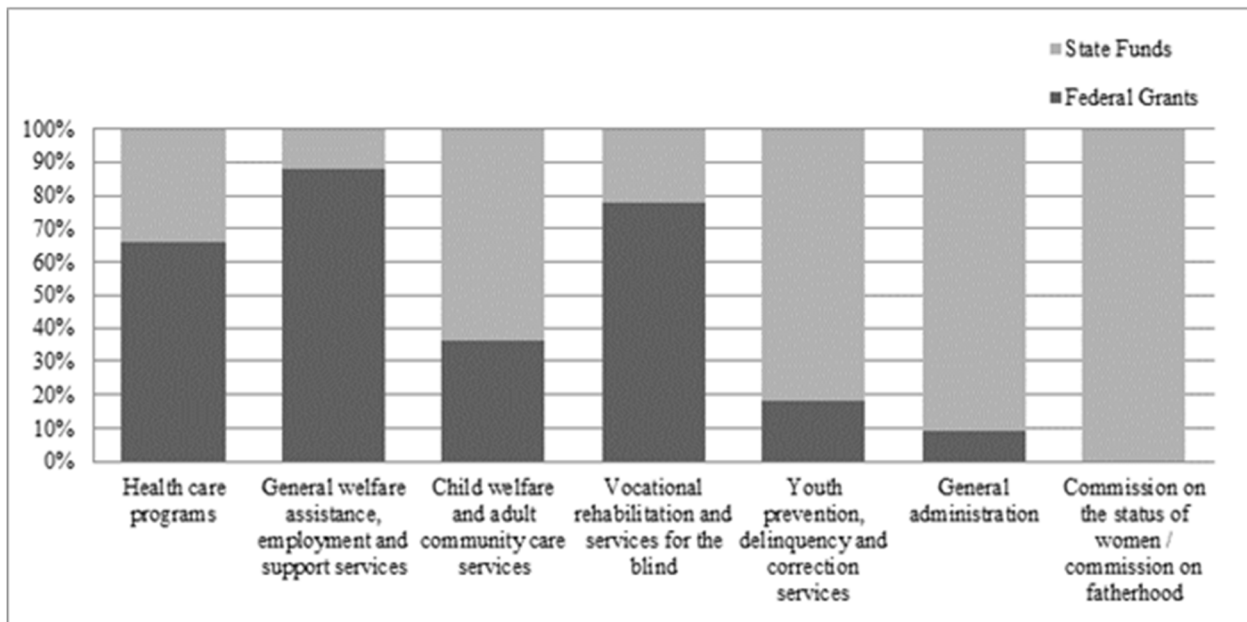
**Department of Human Services
State of Hawaii
Management’s Discussion and Analysis (Unaudited)
June 30, 2023**

Program revenues consist primarily of operating grants from the federal government. Revenues from these federal grants paid for 71.9% and 70.9% of the cost of all the Department’s activities for the years ended June 30, 2023 and 2022, respectively. The following chart presents the percentage of costs funded by federal grants for each major activity of the Department for the years ended June 30, 2023 and 2022:

Fiscal Year 2023



Fiscal Year 2022



Department of Human Services
State of Hawaii
Management's Discussion and Analysis (Unaudited)
June 30, 2023

FINANCIAL ANALYSIS OF THE FUND FINANCIAL STATEMENTS

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

Total expenditures reported on the modified accrual basis increased by \$84.0 million or 1.7% over the prior fiscal year. This increase is primarily related to increases in expenditures for the health care programs and general administration offset by a decrease in expenditures for general welfare assistance, employment and support services.

At June 30, 2023, the total governmental fund balance of the Department consisted of a committed and assigned fund balance of approximately \$10.9 million, and \$141.9 million, respectively. The committed fund balance of the special revenue funds totaling \$10.9 million is principally the result of amounts that are limited by the state law for specific use.

Department of Human Services
State of Hawaii
Management's Discussion and Analysis (Unaudited)
June 30, 2023

The following table presents total revenues and expenditures of the governmental funds of the Department for the years ended June 30, 2023 and 2022:

	Governmental Funds		2023 – 2022	
	2023	2022	Increase (Decrease)	Percentage Change
Revenues				
State-allotted appropriations	\$1,507,397,525	\$1,391,623,203	\$ 115,774,322	8.3 %
Intergovernmental revenues	3,696,263,686	3,590,859,993	105,403,693	2.9 %
Non-imposed employee fringe benefits	29,716,100	29,882,519	(166,419)	(0.6)%
Total revenues	\$5,233,377,311	\$5,012,365,715	\$ 221,011,596	4.4 %
Expenditures				
Health care programs	\$3,605,667,258	\$3,451,712,692	\$ 153,954,566	4.5 %
General welfare assistance, employment and support services	1,294,942,853	1,380,255,844	(85,312,991)	(6.2)%
Child welfare and adult community care services	169,494,628	163,797,572	5,697,056	3.5 %
General administration	32,262,748	23,443,842	8,818,906	37.6 %
Vocational rehabilitation and services for the blind	25,167,578	23,554,344	1,613,234	6.8 %
Youth prevention, delinquency and correction services	17,361,740	18,086,664	(724,924)	(4.0)%
Commission on the status of women / commission on fatherhood	170,082	202,839	(32,757)	(16.1)%
Total expenditures	\$5,145,066,887	\$5,061,053,797	\$ 84,013,090	1.7 %

Department of Human Services
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Management's Discussion and Analysis (Unaudited)
June 30, 2023

BUDGETARY ANALYSIS

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

	Original Budget	Final Budget	Actual on Budgetary Basis	Variance Favorable (Unfavorable)
Expenditures				
Health care programs	\$1,171,821,377	\$1,165,064,823	\$1,082,147,043	\$ 82,917,780
General welfare assistance, employment and support services	159,901,722	140,916,186	134,154,979	6,761,207
Child welfare and adult community care services	114,200,858	107,969,683	107,448,339	521,344
Youth prevention, delinquency and correction services	16,982,479	15,981,589	14,804,763	1,176,826
General administration	12,570,230	10,802,639	29,011,684	(18,209,045)
Vocational rehabilitation and services for the blind	4,328,357	4,379,435	4,290,147	89,288
Commission on the status of women / commission on fatherhood	169,479	139,361	139,361	-
	<u>\$1,479,974,502</u>	<u>\$1,445,253,716</u>	<u>\$1,371,996,316</u>	<u>\$ 73,257,400</u>

The major differences between the original and final budget are mainly due to the increase in the federal fund participation rate and restrictions.

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

Department of Human Services
State of Hawaii
Management’s Discussion and Analysis (Unaudited)
June 30, 2023

CAPITAL ASSETS

As of June 30, 2023 and 2022, the cost basis of capital assets, net of accumulated depreciation, used by the Department is presented in the table below. Approximately \$20.2 million of capital assets were added in the year ended June 30, 2023. The major increase in capital assets is due to the recording of capitalized software costs and buildings occupied by the Department. Annual depreciation totaling approximately \$17.1 million decreased the net cost basis during the year ended June 30, 2023.

Capital Assets, Net of Depreciation
Years Ended June 30, 2023 and 2022

	2023	2022
Nondepreciable assets		
Software under development	\$ 31,126,163	\$ 14,806,463
Land	<u>1</u>	<u>1</u>
Total nondepreciable assets	31,126,164	14,806,464
Depreciable assets, net		
Building and improvements	36,171,234	39,219,977
Furniture and equipment	415,065	791,402
Motor vehicles	166,753	106,795
Intangible assets – software	<u>14,121,863</u>	<u>24,013,669</u>
Total depreciable assets, net	<u>50,874,915</u>	<u>64,131,843</u>
Total	<u>\$ 82,001,079</u>	<u>\$ 78,938,307</u>

In addition to the capital assets listed above, the Department leases numerous office facilities from third-party lessors under operating lease arrangements. Those leases for additional space beyond the state facilities listed above as buildings and improvements are necessary to provide program services throughout the State. The related right-to-use lease asset, lease liability, rent expense, and future minimum lease payments were not material for the year ended June 30, 2023.

ECONOMIC FACTORS (Fiscal Year 2023)

Average monthly financial assistance caseload decreased by 20% from state fiscal year 2022 to 2023, from 10,367 to 8,278 cases. Last year experienced a 27% decrease.

Average monthly number of individuals in Hawaii receiving financial assistance decreased by 29% from state fiscal year 2022 to 2023, from 20,763 to 14,653 individuals. Last year experienced a 27% decrease.

The average monthly number of individuals in Hawaii receiving Supplemental Nutrition Assistance Program (“SNAP”), formerly known as Food Stamp Program, decreased by 12%, from 178,486 to 156,967 individuals. Last year experienced a 7% decrease.

By the end of state fiscal year 2021 and continuing through fiscal year 2023, case counts had begun falling in a number of financial assistance programs as the State began to show modest recovery from the COVID-19 pandemic-imposed hardship.

Department of Human Services
 State of Hawaii
 Management's Discussion and Analysis (Unaudited)
 June 30, 2023

Figure 1

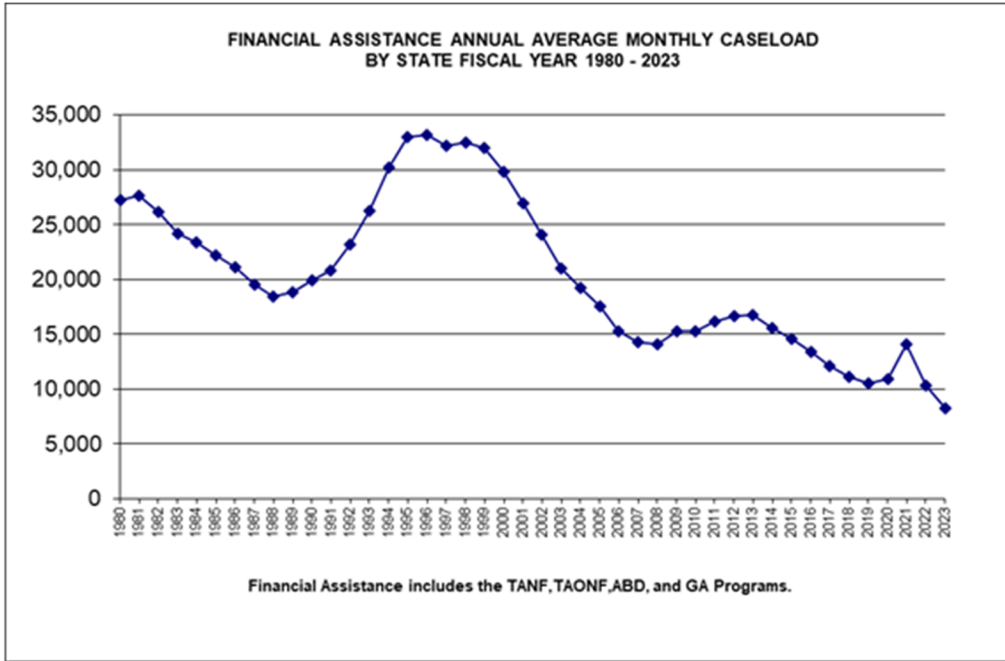
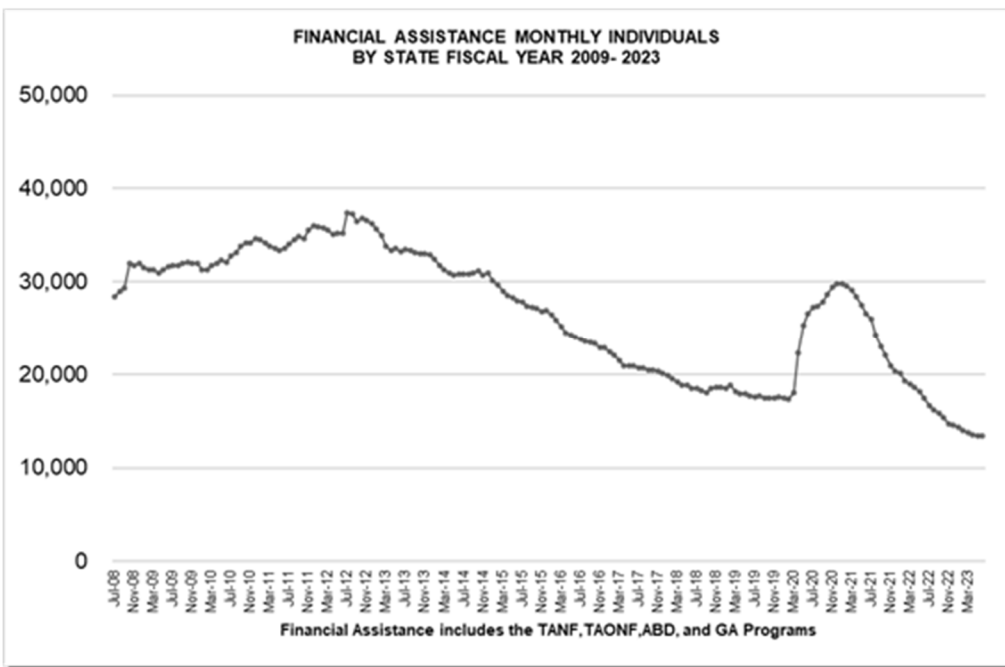
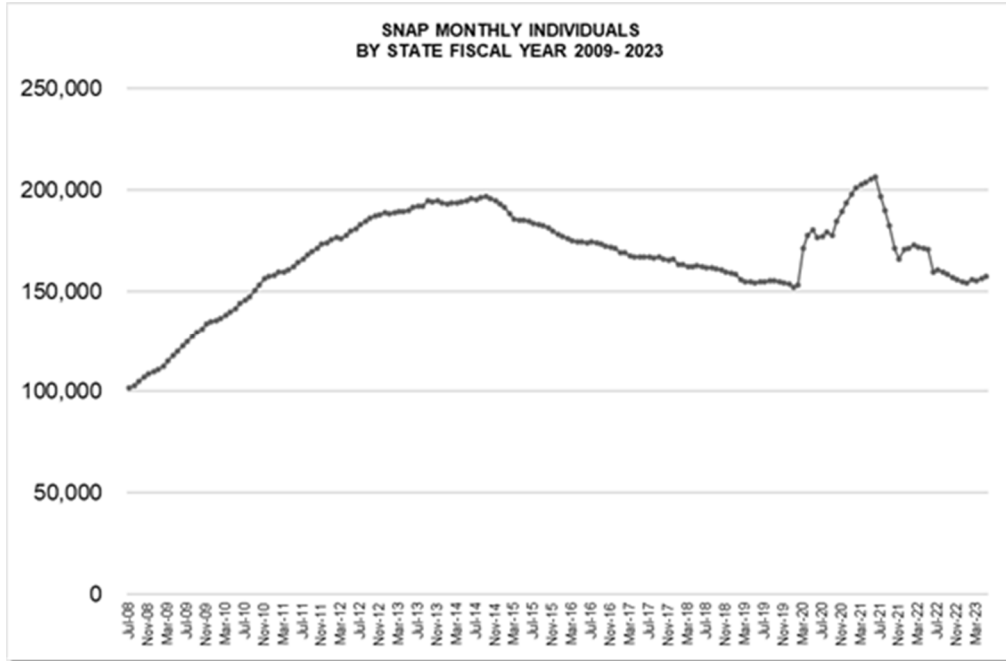


Figure 2



Department of Human Services
State of Hawaii
Management's Discussion and Analysis (Unaudited)
June 30, 2023

Figure 3



Department of Human Services
State of Hawaii
Statement of Net Position
June 30, 2023

Assets

Current assets	
Cash and equity in cash and cash equivalents and investments in State Treasury	\$ 343,976,727
Receivables, net	<u>112,373,358</u>
Total current assets	456,350,085
Capital assets, net of accumulated depreciation	<u>82,001,079</u>
Total assets	<u>\$ 538,351,164</u>

Liabilities and Net Position

Liabilities	
Current liabilities	
Vouchers payable	\$ 10,448,424
Accrued wages and employee benefits payable	11,334,848
Due to other governments	147,677,099
Due to State of Hawaii General Fund	56,902,022
Accrued medical assistance payable	77,171,512
Accrued compensated absences	<u>5,717,000</u>
Total current liabilities	309,250,905
Accrued compensated absences, less current portion	<u>10,307,507</u>
Total liabilities	<u>319,558,412</u>
Net position	
Net investment in capital assets	82,001,079
Unrestricted	<u>136,791,673</u>
Total net position	<u>218,792,752</u>
Total liabilities and net position	<u>\$ 538,351,164</u>

The accompanying notes are an integral part of these financial statements.

**Department of Human Services
State of Hawaii
Statement of Activities
Year Ended June 30, 2023**

		<u>Program Revenues</u>		Net Revenue (Expenses) and Change in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	
Governmental activities				
Health care programs	\$3,599,676,540	\$ -	\$2,463,660,169	\$ (1,136,016,371)
General welfare assistance, employment and support services	1,295,787,556	-	1,141,963,925	(153,823,631)
Child welfare and adult community care services	169,941,926	-	57,223,430	(112,718,496)
General administration	32,420,259	-	11,679,445	(20,740,814)
Vocational rehabilitation and services for the blind	25,657,547	-	19,997,720	(5,659,827)
Youth prevention, delinquency and correction services	18,603,637	-	1,738,997	(16,864,640)
Commission on the status of women / commission on fatherhood	165,958	-	-	(165,958)
Total governmental activities	<u>\$5,142,253,423</u>	<u>\$ -</u>	<u>\$3,696,263,686</u>	(1,445,989,737)
General revenues				
State allotments, net of lapsed appropriations				1,507,397,525
Non-imposed employee fringe benefits				29,716,100
Total general revenues				<u>1,537,113,625</u>
Change in net position				91,123,888
Net position at July 1, 2022				127,668,864
Net position at June 30, 2023				<u>\$ 218,792,752</u>

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The accompanying notes are an integral part of these financial statements.

**Department of Human Services
State of Hawaii
Balance Sheet – Governmental Funds
June 30, 2023**

	General	Med-QUEST Special Revenue Fund	Human Services Special Revenue Fund	Total
Assets				
Cash and equity in cash and cash equivalents and investments in State Treasury	\$ 187,317,652	\$ 61,176,239	\$ 95,482,836	\$ 343,976,727
Receivables, net	5,478,871	105,635,839	1,258,648	112,373,358
Due from other funds	54,181,047	1,014,836	-	55,195,883
Total assets	<u>\$ 246,977,570</u>	<u>\$ 167,826,914</u>	<u>\$ 96,741,484</u>	<u>\$ 511,545,968</u>
Liabilities and Fund Balances				
Liabilities				
Vouchers payable	\$ 4,679,969	\$ -	\$ 5,768,455	\$ 10,448,424
Accrued wages and employee benefits payable	6,944,764	1,130,558	3,259,526	11,334,848
Due to other funds	-	-	55,195,883	55,195,883
Due to State of Hawaii General Fund	56,902,022	-	-	56,902,022
Accrued medical assistance payable	36,506,399	40,665,113	-	77,171,512
Due to other governments	-	125,983,507	21,693,592	147,677,099
Total liabilities	<u>105,033,154</u>	<u>167,779,178</u>	<u>85,917,456</u>	<u>358,729,788</u>
Fund balances				
Committed	-	47,736	10,824,028	10,871,764
Assigned	141,944,416	-	-	141,944,416
Total fund balances	<u>141,944,416</u>	<u>47,736</u>	<u>10,824,028</u>	<u>152,816,180</u>
Total liabilities and fund balances	<u>\$ 246,977,570</u>	<u>\$ 167,826,914</u>	<u>\$ 96,741,484</u>	<u>\$ 511,545,968</u>

Department of Human Services

State of Hawaii

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position

June 30, 2023

Total fund balances – governmental funds		\$ 152,816,180
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.		
These assets consist of		
Governmental capital assets	\$ 327,562,954	
Less: Accumulated depreciation and amortization	<u>(245,561,875)</u>	82,001,079
Accrued compensated absences are not due in the current period and therefore are not reported in the governmental funds.		<u>(16,024,507)</u>
Net position of governmental activities		<u>\$ 218,792,752</u>

The accompanying notes are an integral part of these financial statements.

Department of Human Services

State of Hawaii

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds

Year Ended June 30, 2023

	General	Med-QUEST Special Revenue Fund	Human Services Special Revenue Fund	Total
Revenues				
State-allotted appropriations	\$1,507,397,525	\$ -	\$ -	\$1,507,397,525
Intergovernmental revenues	-	2,463,660,169	1,232,603,517	3,696,263,686
Non-imposed employee fringe benefits	29,716,100	-	-	29,716,100
Total revenues	<u>1,537,113,625</u>	<u>2,463,660,169</u>	<u>1,232,603,517</u>	<u>5,233,377,311</u>
Expenditures				
Health care programs	1,141,267,357	2,464,399,901	-	3,605,667,258
General welfare assistance, employment and support services	70,383,239	-	1,224,559,614	1,294,942,853
Child welfare and adult community care services	111,023,501	-	58,471,127	169,494,628
General administration	25,849,378	-	6,413,370	32,262,748
Vocational rehabilitation and services for the blind	5,577,582	-	19,589,996	25,167,578
Youth prevention, delinquency and correction services	16,839,439	-	522,301	17,361,740
Commission on the status of women / commission on fatherhood	170,082	-	-	170,082
Total expenditures	<u>1,371,110,578</u>	<u>2,464,399,901</u>	<u>1,309,556,408</u>	<u>5,145,066,887</u>
Excess (deficiency) of revenues over (under) expenditures	<u>166,003,047</u>	<u>(739,732)</u>	<u>(76,952,891)</u>	<u>88,310,424</u>
Other financing sources (uses)				
Transfers in (out)	<u>(75,303,653)</u>	<u>739,730</u>	<u>74,563,923</u>	<u>-</u>
Total other financing sources (uses)	<u>(75,303,653)</u>	<u>739,730</u>	<u>74,563,923</u>	<u>-</u>
Net change in fund balances	90,699,394	(2)	(2,388,968)	88,310,424
Fund balances at July 1, 2022	51,245,022	47,738	13,212,996	64,505,756
Fund balances at June 30, 2023	<u>\$ 141,944,416</u>	<u>\$ 47,736</u>	<u>\$ 10,824,028</u>	<u>\$ 152,816,180</u>

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The accompanying notes are an integral part of these financial statements.

Department of Human Services

State of Hawaii

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities Year Ended June 30, 2023

Net change in fund balances – total governmental funds	\$ 88,310,424
Amounts reported for governmental activities in the statement of activities are different because	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are depreciated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays less dispositions and others exceeded depreciation during the year.	3,062,772
Change in long-term compensated absences reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	<u>(249,308)</u>
Change in net position of governmental activities	<u>\$ 91,123,888</u>

The accompanying notes are an integral part of these financial statements.

Department of Human Services
State of Hawaii
Fiduciary Fund – Statement of Fiduciary Net Position
June 30, 2023

	Custodial Funds
Assets	
Equity in cash and cash equivalents and investments in State Treasury	\$ 836,409
Total assets	<u>\$ 836,409</u>
Liabilities	
Due to individuals	\$ 334,200
Due to others	<u>10,606</u>
Total liabilities	<u>344,806</u>
Net Position	
Restricted	<u>491,603</u>
Total net position	<u>\$ 491,603</u>

The accompanying notes are an integral part of these financial statements.

Department of Human Services
State of Hawaii
Fiduciary Fund – Statement of Changes in Fiduciary Net Position
Year Ended June 30, 2023

	Custodial Funds
Additions	
Custodial collections	\$ 413,118
Total additions	<u>413,118</u>
Deductions	
Custodial disbursements	<u>97,881</u>
Total deductions	<u>97,881</u>
Net increase in fiduciary net position	315,237
Net position	
Beginning of year	<u>176,366</u>
End of year	<u>\$ 491,603</u>

The accompanying notes are an integral part of these financial statements.

Department of Human Services
State of Hawaii
Notes to Financial Statements
June 30, 2023

1. Financial Reporting Entity

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

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

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

Health Care Programs

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

General Welfare Assistance, Employment and Support Services

The Benefit, Employment, and Support Services Division provides monthly benefits to assist eligible clients with such essentials as food, clothing, shelter, emergency assistance, child care, and work support, as well as employment and training to help families attain self-sufficiency. Cash benefits are provided to individuals and families through the Temporary Assistance for Needy Families, Temporary Assistance to Other Needy Families, General Assistance, and Assistance to the Aged, Blind, and Disabled programs, as well as the Low Income House Energy Program and Child Care Connection Hawaii. The Supplemental Nutrition Assistance Program, formerly known as the Food Stamp Program, helps to ensure that no one goes hungry. The First-To-Work, Employment and Training programs provide job readiness, job development, job placement, case management, and other supportive services to ensure that families on public welfare are adequately prepared to end dependency, as well as providing a variety of at-risk youth and family strengthening programs to prevent family dependence. In 2011, the state homeless programs, previously administered by the Hawaii Housing Authority, was transferred to the division. The division's operations are reported in the general, special revenue, and custodial funds.

Child Welfare and Adult Community Care Services

The Social Services Division provides social services programs to ensure the health and safety of those least able to protect themselves from abuse and neglect. The Child Welfare Services ("CWS") program provides services to ensure the safety and permanency of children in their own homes or, when necessary, in out-of-home placements. The program is community-based and neighbor-focused with

Department of Human Services
State of Hawaii
Notes to Financial Statements
June 30, 2023

many partnerships and collaborations with the private and public sectors. Services are focused on empowering families and building upon family strengths. When children cannot be safely returned to their family, the CWS program proceeds with permanent placement through adoption, legal guardianship, or other substitute long-term care, including independent living. The program also licenses foster families, boarding homes, group homes, and child-placing organizations. The Adult Protective Services program provides crisis intervention, including investigation and emergency services, to dependent adults who are reported to be abused, neglected, or financially exploited by others or seriously endangered due to self-neglect. The Home and Community-Based Services program provides comprehensive home and community-based services to disabled adults and children to enable them to live in their homes or in the community for as long as possible to prevent premature institutionalization. The division's operations are reported in the general, special revenue, and custodial funds.

Vocational Rehabilitation and Services for the Blind

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

Youth Prevention, Delinquency, and Correction Services

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

General Administration

General administration includes the six staff offices that support the Department's administration, operating divisions, and attached agencies. The Administrative Appeals Office ("AAO") provides administrative due process hearings for three departmental divisions: Benefit, Employment, and Support Services; MED-Quest; and Social Services. The AAO also serves as the rules coordinator for the Department and reviews administrative proceedings for the adoption, modification or repeal of departmental rules. The AAO is also responsible for establishing a mediation process for the Department.

Department of Human Services
State of Hawaii
Notes to Financial Statements
June 30, 2023

The Fiscal Management Office (“FMO”) provides staff assistance and advisory services for the administrative functions of fiscal management and housekeeping services. The FMO formulates policies and procedures and administers the Department’s central accounting, funds management, client and vendor payment, employee payroll, inventory management, contracting, purchasing, records management, office space allocation, and central mail distribution function. The Audit, Quality Control and Research Office (“AQCRO”) conducts audits, research studies, and reviews of the Department’s internal control systems and financial operations to safeguard the Department’s assets. The AQCRO serves to ensure the Department’s compliance with federal laws and regulations in monitoring the use of federal funds for services and benefits to clients. The Budget, Planning, and Management Office (“BPMO”) conducts studies, analyses, management evaluations, and reviews of departmental programs and operations to ascertain statutory and/or regulatory compliance, appropriate budgetary levels, and achievement of stated goals and objectives. The Office of Information Technology is responsible for the overall administration, planning, direction, management, development, implementation and maintenance of all information technology and information systems processing for the Department statewide. The Personnel Office oversees the personnel programs of the Department, including recruitment, examination, placement, position description, classification and pricing analysis, labor relations, civil rights, employee safety relations, employee training and development, personnel transactions, and maintenance of personnel records. Those operations are reported in the general and special revenue funds.

Commission on the Status of Women

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

Commission on Fatherhood

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

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

Department of Human Services
State of Hawaii
Notes to Financial Statements
June 30, 2023

2. Summary of Significant Accounting Policies

Basis of Presentation

The basic financial statements of the Department have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"). The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Department's significant accounting policies are described below.

Government-wide and Fund Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. State allotments are reported as general revenues. Resources that are dedicated internally are reported as general revenues rather than program revenues.

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

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Presentation

Government-wide Financial Statements

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

Governmental 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. Revenues susceptible to accrual include federal grants and funds appropriated by the State Legislature and allotted by the Governor. Expenditures are generally recorded when the related fund liabilities are incurred.

Department of Human Services
State of Hawaii
Notes to Financial Statements
June 30, 2023

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

Expenditures generally are recorded when a liability is incurred as under the accrual basis of accounting. Modifications to the accrual basis of accounting include employees' vested vacation and claims, which are recorded as expenditures when utilized or paid. The amount of accumulated vacation and claims reserve are reported only in the government-wide financial statements.

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

Custodial Fund

The financial statements of the custodial fund are reported using the economic resources measurement focus and the accrual basis of accounting.

Fund Accounting

The financial transactions of the Department are recorded in individual funds that are reported in the fund financial statements and are described in the following sections. Each fund is considered a separate accounting entity. The operations of each are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenues and expenditures. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

The financial activities of the Department that are reported in the accompanying fund financial statements have been classified into the following major governmental funds. A description of the governmental funds is as follows:

Governmental Fund Types – The Department reports the following major governmental funds:

- **General Fund** – The general fund is the main operating fund of the Department. The annual operating budget as authorized by the State Legislature provides the basic framework within which the resources and obligations of the general fund are accounted for.
- **Special Revenue Funds** – The special revenue funds are used to account and report proceeds of specific revenue sources that are legally restricted or committed to expenditure for specific purposes other than debt service or capital projects. The Special Revenue Funds are as follows:
 - **MED-Quest** – Accounts for the programs related to the healthcare programs of the State.
 - **Human Services** – Accounts for social services programs, which include public welfare and eligibility and disability determinations.
- **Custodial Funds** – The custodial funds account for various assets held by the Department pending distributions to individuals, private organizations, other governmental agencies, or other funds.

Department of Human Services
State of Hawaii
Notes to Financial Statements
June 30, 2023

Equity in Cash and Cash Equivalents and Investment in State Treasury

Cash and cash equivalents consist of amounts held in the State Treasury and cash in banks as discussed in Note 3.

Receivables

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

Capital Assets

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

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

The State has adopted the following capitalization policy:

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

Leases

The Department has a policy to recognize a lease liability and a right-to-use asset (“lease asset”) in the government-wide financial statements. The Department recognizes lease liabilities with an initial, individual value of \$100,000 or more for land and building leases and \$25,000 or more for equipment and others, with a lease term greater than one year. Variable payments based on future performance of the lessee or usage of the underlying asset are not included in the measurement of the lease liability.

At the commencement of a lease, the Department initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made.

Department of Human Services
State of Hawaii
Notes to Financial Statements
June 30, 2023

Lease assets are recorded at the amount of the initial measurement of the lease liabilities and modified by any lease payments made to the lessor at or before the commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease term along with any initial direct costs that are ancillary charges necessary to place the lease assets into service. Lease assets are amortized using the straight-line method over the shorter of the lease term or the useful life of the underlying asset, unless the lease contains a purchase option that the Department has determined is reasonably certain of being exercised. In this case, the lease asset is amortized over the useful life of the underlying asset.

Key estimates and judgments related to leases include how the Department determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The Department uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the Department generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancelable period of the lease.
- Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the State is reasonably certain to exercise.

The Department monitors changes in circumstances that would require a remeasurement of its lease and will remeasure any lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported as right to use along with other capital assets and lease liabilities are reported with long-term liabilities on the statement of net position.

Compensated Absences

Employees are credited with vacation at the rate of 168 hours per calendar year. Accumulation of such vacation credits is limited to 720 hours at calendar year-end and is convertible to pay upon termination of employment. Such accumulated vacation has been accrued and reflected in the statement of net position. There is no liability for unpaid accumulated sick leave since it is not convertible to pay upon termination of employment.

Due to Individuals

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

Fund Balance

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Department of Human Services
State of Hawaii
Notes to Financial Statements
June 30, 2023

The Department classifies fund balances based primarily on the extent to which a government is bound to follow constraints on how resources can be spent in accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Classifications include:

- **Restricted** – Balances that are restricted for specific purposes by external parties such as creditors, grantors or other governments.
- **Committed** – Balances that can only be used for specific purposes pursuant to constraints imposed by formal action of the State Legislature.
- **Assigned** – Balances that are constrained by management to be used for specific purposes, but are neither restricted nor committed.
- **Unassigned** – Residual balances that are not contained in the other classifications.

When both restricted and unrestricted resources are available for use, generally it is the Department’s policy to use restricted resources first, then unrestricted resources as they are needed. When committed, assigned and unassigned resources are available for use, it is generally the Department’s policy that committed amounts be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of these unrestricted fund balance classifications could be used.

Appropriations

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

Operating Grants and Contributions

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

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 have been recorded as operating transfers in the basic financial statements.

Risk Management

The Department is exposed to various risks for losses related to torts; theft of, damage to, or destruction of assets; errors or omissions; workers’ compensation; and acts of terrorism. A liability for a claim for a risk of loss is established if information indicates that it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss is reasonably estimable.

Use of Estimates

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

Recently Issued Accounting Pronouncements

GASB Statement No. 94

The GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2022. This statement did not have a material impact on the Department's financial statements.

GASB Statement No. 96

The GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements ("SBITAs") for government end users. This statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset – an intangible asset – and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires noted disclosures regarding a SBITA. The Department adopted GASB Statement No. 96 effective July 1, 2022. Implementation of this statement did not have a material impact on the Department's financial statements.

GASB Statement No. 99

The GASB issued Statement No. 99, *Omnibus*. The primary objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. Certain requirements of this Statement were effective immediately, while other requirements are effective for fiscal years beginning after June 15, 2022 and June 15, 2023, respectively. The Department adopted the relevant provisions of the Statement effective in fiscal year 2023 with no material effect to its financial statements. For the remaining requirements, the Department has not determined the effect this statement will have on its financial statements.

GASB Statement No. 100

The GASB issued Statement No. 100, *Accounting Changes and Error Correction – an amendment of GASB Statement No. 62*. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent and comparable information for making decisions or assessing accountability. The requirements of this Statement are effective for reporting periods beginning after June 15, 2023. The Department has not determined the effect this Statement will have on its financial statements.

GASB Statement No. 101

The GASB issued Statement No. 101, *Compensated Absences*. The primary objective of the Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. The requirements of this Statement are effective for reporting periods beginning after December 15, 2023. The Department has not determined the effect this Statement will have on its financial statements.

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GASB Statement No. 102

The GASB issued Statement No. 102, *Certain Risk Disclosures*. The primary objective of the Statement is to provide users of government financial statements with information about risks related to a government’s vulnerabilities due to certain concentrations or constraints that is essential to their analyses for making decisions or assessing accountability. The requirements of this Statement are effective for reporting periods beginning after June 15, 2024. The Department has not determined the effect this Statement will have on its financial statements.

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

The Director of Finance is responsible for the safekeeping of all monies paid into the State Treasury. The Director of Finance pools and invests any monies of the State, which in the Director of Finance’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.

GAAP 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 these funds are held in the State investment 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 State’s Annual Comprehensive Financial Report (“ACFR”) which may be obtained from the Department of Accounting and General Services’ (“DAGS”) website: <http://ags.hawaii.gov/accounting/annual-financial-reports/>.

Cash and cash equivalents at June 30, 2023 consisted of the following:

Cash in banks	\$ 960,194
Amounts held in the State Treasury	<u>343,016,533</u>
	<u>\$ 343,976,727</u>

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4. Receivables

Receivables of the Department, net of allowance for doubtful accounts, consisted of the following on June 30, 2023:

	General	Med-Quest	Human Services	Total
Welfare benefit overpayments	\$ 21,100,215	\$ 2,065,842	\$ 27,788,176	\$ 50,954,233
Drug rebate receivable	-	88,332,124	-	88,332,124
Risk share	-	15,907,860	-	15,907,860
Medicaid providers receivable	3,017,079	-	-	3,017,079
Medicaid assistance receivable	3,493,360	-	-	3,493,360
Social security interim assistance loans	985,887	-	-	985,887
Other Med-QUEST receivable	-	1,302,284	-	1,302,284
	<u>28,596,541</u>	<u>107,608,110</u>	<u>27,788,176</u>	<u>163,992,827</u>
Less: Allowance for doubtful accounts				
Welfare benefit overpayments	20,144,494	1,972,271	26,529,528	48,646,293
Medicaid providers receivable	2,973,176	-	-	2,973,176
	<u>23,117,670</u>	<u>1,972,271</u>	<u>26,529,528</u>	<u>51,619,469</u>
Receivables, net	<u>\$ 5,478,871</u>	<u>\$ 105,635,839</u>	<u>\$ 1,258,648</u>	<u>\$ 112,373,358</u>

5. Interfund Receivable and Payable

The general fund and MED-Quest special revenue fund had net receivables due from the Human Services special revenue fund of approximately \$54,181,000 and \$1,015,000, respectively as of June 30, 2023, primarily for federal reimbursements of program expenditures. The Human Services special revenue fund had payables to the general fund and Med-Quest special revenue fund of approximately \$54,181,000 and \$1,015,000, respectively, as of June 30, 2023, primarily for federal reimbursement of program expenditures.

6. Capital Assets

For the year ended June 30, 2023, capital assets activity for the Department was as follows:

	Balance July 1, 2022	Additions	Disposals	Balance June 30, 2023
Nondepreciable assets				
Software under development	\$ 14,806,463	\$ 16,319,700	\$ -	\$ 31,126,163
Land	<u>1</u>	<u>-</u>	<u>-</u>	<u>1</u>
Total nondepreciable assets	14,806,464	16,319,700	-	31,126,164
Depreciable assets				
Building and improvements	87,735,993	3,770,364	-	91,506,357
Furniture and equipment	35,182,391	26,532	(258,825)	34,950,098
Motor vehicles	1,686,664	132,264	-	1,818,928
Intangible assets – software	<u>168,161,407</u>	<u>-</u>	<u>-</u>	<u>168,161,407</u>
Total depreciable assets	292,766,455	3,929,160	(258,825)	296,436,790
Less: Accumulated depreciation/amortization for				
Buildings and improvements	48,516,016	6,819,107	-	55,335,123
Furniture and equipment	34,390,989	354,607	(210,563)	34,535,033
Motor vehicles	1,579,869	72,306	-	1,652,175
Intangible assets – software	<u>144,147,738</u>	<u>9,891,806</u>	<u>-</u>	<u>154,039,544</u>
Total accumulated depreciation/amortization	<u>228,634,612</u>	<u>17,137,826</u>	<u>(210,563)</u>	<u>245,561,875</u>
Capital assets, net	<u>\$ 78,938,307</u>	<u>\$ 3,111,034</u>	<u>\$ (48,262)</u>	<u>\$ 82,001,079</u>

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Depreciation expense for the year ended June 30, 2023 was charged to functions/programs of the Department as follows:

	Governmental Activities
Health care programs	\$ 10,664,162
Youth prevention, delinquency and correction services	1,129,451
General welfare assistance, employment and support services	3,854,033
Child welfare and adult community care services	846,860
Vocational rehabilitation and services for the blind	548,135
General administration	93,661
Commission on the status of women / commission on fatherhood	1,524
	<u>\$ 17,137,826</u>

7. Leases

The Department leases certain office building spaces under noncancelable operating lease agreements. The leases expire at various dates through 2032. The related right-to-use lease asset, lease liability, rent expense, and future minimum lease payments were not material for the year ended June 30, 2023.

8. Accrued Compensated Absences

The long-term liability of the Department for governmental activities consisted of accrued compensated absences. The change in the long-term liability during the year ended June 30, 2023 was as follows:

Balance at July 1, 2022	\$ 15,775,199
Additions	8,005,122
Reductions	<u>(7,755,814)</u>
Balance at June 30, 2023	16,024,507
Less: Current portion	<u>(5,717,000)</u>
	<u>\$ 10,307,507</u>

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9. Fund Balance

Fund balance constraints by purpose of June 30, 2023 were as follows:

	General	Med-QUEST Special Revenue	Human Services Special Revenue	Total
Committed				
Vocational rehabilitation	\$ -	\$ -	\$ 2,850,289	\$ 2,850,289
Health care programs	-	47,736	-	47,736
Child welfare and adult community care services	-	-	303,927	303,927
General administration	-	-	5,436,974	5,436,974
General welfare assistance, employment and support services	-	-	984,082	984,082
Youth prevention, delinquency and correction services	-	-	1,244,992	1,244,992
Commission on the status of women / commission on fatherhood	-	-	3,764	3,764
Total – committed	<u>-</u>	<u>47,736</u>	<u>10,824,028</u>	<u>10,871,764</u>
Assigned				
Human services	<u>141,944,416</u>	-	-	<u>141,944,416</u>
Total fund balances	<u>\$ 141,944,416</u>	<u>\$ 47,736</u>	<u>\$ 10,824,028</u>	<u>\$ 152,816,180</u>

10. Non-imposed Employee Wages and Fringe Benefits

Payroll fringe benefit costs of the Department’s employees that are funded by state appropriations (general fund) are assumed by the State and are not charged to the Department’s operating funds. These costs, totaling approximately \$29,716,000 for the year ended June 30, 2023, have been reported as revenues and expenditures in the general fund of the Department.

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

11. Retirement Benefits

Pension Plan

Plan Description

Generally, all full-time employees of the State and counties, including the Department, are required to be members of the Employees’ Retirement System of the State of Hawaii (“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 Hawaii Revised Statutes (“HRS”) Chapter 88 and can be amended through legislation. The ERS issues publicly available annual financial reports that can be obtained at the ERS website: <http://ers.ehawaii.gov/resources/financials>.

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

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final compensation for members hired prior to July 1, 2012 is an average of the highest salaries during any three years of credited service, excluding any salary paid in lieu of vacation for members hired January 1, 1971 or later and the average of the highest salaries during any five years of credited service including any salary paid in lieu of vacation for members hired prior to January 1, 1971. For members hired after June 30, 2012, average final compensation is an average of the highest salaries during any five years of credited service excluding any salary paid in lieu of vacation.

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

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

Noncontributory Class

- Retirement Benefits – General employees' retirement benefits are determined as 1.25% of average final compensation multiplied by the years of credited service. Employees with ten years of credited service are eligible to retire at age 62. Employees with thirty 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 are 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 surviving dependent children, no benefit is payable.

Ordinary death benefits are available to employees who were active at the 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 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.

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Contributory Class for Members Hired Prior to July 1, 2012

- Retirement Benefits – General employees’ retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with five years of credited service are eligible to retire at age 55.
- Disability Benefits – Members are eligible for service-related disability benefits regardless of length of service and receive a one-time payment of the member’s contributions and accrued interest plus a lifetime pension of 50% of their average final compensation. Ten years of credited service are required for ordinary disability. Ordinary disability benefits are determined as 1.75% of average final compensation multiplied by the years of credited service but are payable immediately, without an actuarial reduction, and at a minimum of 30% of average final compensation.
- Death Benefits – For service-connected deaths, the 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 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 twelve 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 Class for Members Hired After June 30, 2012

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

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

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Hybrid Class for Members Hired Prior to July 1, 2012

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

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 Class for Members Hired After June 30, 2012

- *Retirement Benefits* – General employees’ retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with ten years of credited service are eligible to retire at age 65. Employees with thirty years of credited service are eligible to retire at age 60.
- *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.

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Contributions

Contributions are established 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 rate for fiscal year 2023 was 24% for general employees. The Department's general fund share of the contributions for pension benefits for the year ended June 30, 2023 was paid from the State General Fund and totaled approximately \$12,956,000. The Department's federal share of contributions for the year ended June 30, 2023 was approximately \$7,126,000.

The employer is required to make all contributions for noncontributory members. Contributory members hired prior to July 1, 2012 are required to contribute 7.8% of their salary. Contributory members hired after June 30, 2012 are required to contribute 9.8% 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.

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

Measurement of the actuarial valuation of the pension liability, pension expense, and deferred outflows of resources and deferred inflows of resources related to pension is made for the State as a whole and is not separately computed for the individual State departments and agencies such as the Department. The State allocates the pension liability, pension expense, and deferred outflows of resources and deferred inflows of resources related to pension only to component units and proprietary funds that are reported separately in the State ACFR. Accordingly, the Department's proportionate share of the State's pension liability, pension expense, and deferred outflows of resources and deferred inflows of resources related to pension is not reported in the accompanying financial statements.

Additional disclosures and required supplementary information pertaining to the State's net pension liability, pension expense, and deferred outflows of resources and deferred inflows of resources related to pension can be found in the State's ACFR. The State's ACFR can be obtained at the DAGS' website: <http://hawaii.gov/dags/rpts>.

Postemployment Healthcare and Life Insurance Benefits

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 Hawaii Employer-Union Health Benefits Trust Fund ("EUTF"), an agent multiple-employer defined benefit plan that replaced the Hawaii Public Employees Health Fund effective July 1, 2003. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees, and their dependents. The EUTF issues an annual financial report that is available to the public at <https://eutf.hawaii.gov/reports>. The report may also be obtained by writing to the EUTF at P.O. Box 2121, Honolulu, Hawaii 96805-2121.

For employees hired before July 1, 1996, the State pays the entire base monthly contribution for employees retiring with ten or more years 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.

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For employees hired after June 30, 1996, but before July 1, 2001, and who retire with fewer 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 those employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Retirees in this category can elect a family plan to cover dependents.

For employees hired on or after July 1, 2001, and who retire with fewer 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.

Contributions

Contributions are governed by HRS Chapter 87A and may be amended through legislation. Contributions to the EUTF paid by the Department was approximately \$9,329,000 for the year ended June 30, 2023. The Department is required to make all contributions for members.

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

Measurement of the actuarial valuation of the OPEB liability, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB is made for the State as a whole and is not separately computed for the individual State departments and agencies such as the Department. The State allocates the OPEB liability, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB only to component units and proprietary funds that are reported separately in the State ACFR. Accordingly, the Department's proportionate share of the State's OPEB liability, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB are not reported in the accompanying financial statements.

Additional disclosures and required supplementary information pertaining to the State's net OPEB liability, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB can be found in the State's ACFR.

Deferred Compensation Plan

The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code, Section 457. The plan, which is available to all State employees (excluding part-time, temporary and casual/seasonal), permits employees to defer a portion of their compensation until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All plan assets are held in a trust fund to protect them from claims of general creditors. The State has no responsibility for loss due to the investment or failure of investment of funds and assets in the plan but does have the duty of due care that would be required of an ordinary prudent investor. Accordingly, the assets and liabilities of the State's deferred compensation plan are not reported in the State's nor the Department's financial statements.

12. Risk Management

The Department is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; and workers' compensation. The State records a liability for risk financing and insures certain excess layers with commercial insurance companies. The excess layers insured with commercial insurance companies are consistent with the prior fiscal year. A summary of the State's underwriting risks is as follows:

Property Insurance

The State has an insurance policy with various insurers for property coverage. The limit of loss per occurrence is \$200,000,000, except for terrorism losses, which has a \$100,000,000 per occurrence limit. There are two different types of deductibles for the property coverage. The deductible for losses such as hurricanes, floods and earthquakes are 3% of the replacement costs to the property subject to a \$1,000,000 per occurrence minimum. The deductible for all other perils such as a fire and terrorism is \$1,000,000.

Crime Insurance

The State also has a crime insurance policy for various types of coverages with a limit of loss of \$10,000,000 per occurrence with a \$500,000 deductible per occurrence, except for clients property which has a \$5,000,000 limit per occurrence and a \$500,000 deductible, and claims expense coverage, supplemental funds transfer coverage, and social engineering which has a \$100,000 limit per occurrence and a \$500,000 deductible. Losses under the deductible amount are paid by the Risk Management Office of the Department of Accounting and General Services, and losses not covered by insurance are paid from the State's General Fund.

Casualty and Professional Liability

Liability claims up to \$25,000 are handled by the Risk Management Office. All other claims are handled by the Department of the Attorney General. The State has various types of coverages with a \$5,000,000 self-insured retention per occurrence, including double \$2,500,000 corridor. The annual aggregate limit for the various coverages is \$5,000,000. Losses under the deductible amount but over the Risk Management Office authority or over the aggregate limit are paid from legislative appropriations of the State's General Fund.

Cyber Liability Insurance

The State is insured for various types of cyber-related activities with a loss limit of \$5,000,000 with a deductible of \$5,000,000 per claim. This policy covers all departments and divisions except for the University of Hawai'i and includes (with sub-limits) system failure business interruption, dependent business interruption, and system failure, bricking of hardware, consequential reputation loss, and voluntary shutdown.

Self-Insured Risks

The State generally self-insures its automobile no-fault and workers' compensation losses. Automobile losses up to \$25,000 per claim are administered by the Risk Management Office. The State administers its workers' compensation losses via the Department of Human Resources and Development.

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At June 30, 2023, the State recorded an estimated loss for workers' compensation, automobile and general liability claims as long-term debt as the losses will not be liquidated with currently expendable available financial resources. The estimated losses will be paid from legislative appropriations of the State's General Fund. The Department's portion of the State's workers' compensation expense was not material for the year ended June 30, 2023.

13. Commitments and Contingencies

Encumbrances

The Department is committed under contracts awarded and orders placed for construction, repairs and maintenance, expenses, supplies, etc. These commitments as of June 30, 2023 were as follows:

Fund	
General	\$ 167,316,571
Human Services	51,295,279
Med-Quest	<u>20,908,447</u>
	<u>\$ 239,520,297</u>

Litigation

The Department has been named as defendant in a number of lawsuits and claims arising in the normal course of operations. A number of claims may possibly result in adverse judgments against the Department. However, such claim amounts cannot be reasonably estimated at this time. Although the Department and its counsel are unable to express opinions as to the outcome of ongoing litigation, it is their opinion that any potential liability arising therefrom will not have a material adverse effect on the financial position of the Department because any judgments against the Department are judgments against the State and would be funded by the legislative appropriation of the State General Fund.

Accumulated Sick Leave

Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limit, but can 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 ERS. Accumulated sick leave as of June 30, 2023 was approximately \$28,034,000.

14. Related Party Transactions

The Department had various amounts due to the State of approximately \$56,902,000 as of June 30, 2023, which included federal reimbursements for program expenditures of approximately \$12,827,000, receivables of approximately \$43,296,000, and cash of approximately \$779,000.

15. Transfers

During the year ended June 30, 2023, the General Fund transferred approximately \$74,564,000 to the Human Services Special Revenue Fund for various programs utilizing the Electronic Benefits Transfers System. Approximately \$740,000 was transferred from the General Fund to the MED-Quest Special Revenue Fund for administration of the Medicaid program.

**Required Supplementary Information
Other than Management's Discussion
and Analysis (Unaudited)**

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General Fund – Schedule of Revenues and Expenditures – Budget and Actual (Unaudited)

Year Ended June 30, 2023

	Original	Final	Actual on Budgetary Basis	Variance Positive (Negative)
Revenues				
State allotments	\$1,479,974,502	\$1,445,253,716	\$1,488,615,692	\$ 43,361,976
Expenditures				
Health care programs	1,171,821,377	1,165,064,823	1,082,147,043	82,917,780
General welfare assistance, employment and support services	159,901,722	140,916,186	134,154,979	6,761,207
Child welfare and adult community care services	114,200,858	107,969,683	107,448,339	521,344
Youth prevention, delinquency and correction services	16,982,479	15,981,589	14,804,763	1,176,826
General administration	12,570,230	10,802,639	29,011,684	(18,209,045)
Vocational rehabilitation and services for the blind	4,328,357	4,379,435	4,290,147	89,288
Commission on the status of women / commission on fatherhood	169,479	139,361	139,361	-
Total expenditures	<u>1,479,974,502</u>	<u>1,445,253,716</u>	<u>1,371,996,316</u>	<u>73,257,400</u>
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 116,619,376</u>	<u>\$ 116,619,376</u>

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See accompanying report of independent auditors and notes to required supplementary information.

Department of Human Services

State of Hawaii

Special Revenue Funds – Schedule of Revenues and Expenditures – Budget and Actual (Unaudited)

Year Ended June 30, 2023

	Original	Final	Actual on Budgetary Basis		Variance Positive (Negative)
			Med-QUEST Special Revenue Fund	Human Services Special Revenue Fund	
Revenues					
Intergovernmental revenues					
Med-QUEST	\$2,585,402,480	\$2,585,402,480	\$2,603,751,481	\$ -	\$ 18,349,001
Human services	303,968,126	303,968,126	-	405,428,864	101,460,738
Total revenues	<u>2,889,370,606</u>	<u>2,889,370,606</u>	<u>2,603,751,481</u>	<u>405,428,864</u>	<u>119,809,739</u>
Expenditures					
Health care programs	2,585,402,480	2,585,402,480	2,543,137,115	-	42,265,365
General welfare assistance, employment and support services	199,120,840	199,120,840	-	311,763,187	(112,642,347)
Child welfare and adult community care services	55,646,474	55,646,474	-	46,445,087	9,201,387
Vocational rehabilitation and services for the blind	21,214,855	21,214,855	-	23,607,483	(2,392,628)
General administration	25,751,407	25,751,407	-	15,270,774	10,480,633
Youth prevention, delinquency and correction services	2,234,550	2,234,550	-	2,328,284	(93,734)
Total expenditures	<u>2,889,370,606</u>	<u>2,889,370,606</u>	<u>2,543,137,115</u>	<u>399,414,815</u>	<u>(53,181,324)</u>
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 60,614,366</u>	<u>\$ 6,014,049</u>	<u>\$ 66,628,415</u>

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See accompanying report of independent auditors and notes to required supplementary information.

Department of Human Services
State of Hawaii
Notes to Required Supplementary Information
Year Ended June 30, 2023

1. Budgeting and Budgetary Control

Revenue estimates are provided to the State Legislature at the time of budget consideration and are revised and updated periodically during the fiscal year. Amounts reflected as budgeted revenues in the statement of revenues and expenditures – budget and actual (budgetary basis) are those estimated as compiled by the Council on Revenues and the Director of Finance.

Budgeted expenditures are derived primarily from the General Appropriations Act of 2021 (Act 88, SLH 2021), and from other authorizations contained in the State Constitution, Hawaii Revised Statutes, and other specific appropriation acts in various Session Laws of Hawaii. During July 2022, Act 248 SLH 2022 retroactively amended certain budgeted expenditures from the General Appropriations Act of 2021.

All expenditures of appropriated funds were made pursuant to the appropriations in the fiscal 2021 – 2023 biennial budget and executive supplemental budget.

The final legally adopted budgets in the accompanying General Fund and Special Revenue Funds Schedules of Revenues and Expenditures – Budget and Actual (budgetary basis) represent the original appropriations, transfers, and other legally authorized legislative and executive changes.

The legal level of budgetary control is maintained at the appropriation line item level by department, program, and source of funds as established in the appropriations act. The Governor is authorized to transfer appropriations between departments generally require legislative authorization. Records and reports reflecting the detailed level of control are maintained by and are available at the Department. During the year ended June 30, 2023, there were no expenditures in excess of available appropriations at the legal level of budgetary control.

To the extent not expended or encumbered, General Fund and Special Revenue Funds appropriations subject to budgetary control generally lapse at the end of the fiscal year for which the appropriations are made. The State Legislature specifies the lapse dates and any other contingencies, which may terminate the authorizations for other appropriations.

Budgets adopted by the State Legislature for the General Fund and Special Revenue Funds are presented in the accompanying schedules of revenues and expenditures – budget and actual (budgetary basis). The Department’s annual budget is prepared on the cash basis of accounting except for the encumbrance of purchase orders and contract obligations (basis difference), which is a departure from GAAP.

Department of Human Services
State of Hawaii
Notes to Required Supplementary Information
Year Ended June 30, 2023

The following schedule reconciles the budgetary amounts to the amounts presented in accordance with GAAP for the year ended June 30, 2023:

	General	Med-Quest	Human Services
Excess of revenues over expenditures – actual on a budgetary basis	\$ 116,619,376	\$ 60,614,366	\$ 6,014,049
Current year’s appropriations encumbered at fiscal year-end	169,296,647	381,048	72,864,120
Expenditures for liquidation of prior fiscal year-end encumbrances	(118,740,684)	(46,535,973)	(44,031,032)
Net changes in liabilities	4,303,603	2,847,970	2,371,172
Net change in accrued medical assistance payable	11,607,883	72,024,787	-
Accruals related to federal reimbursements for program expenditures	(102,246,438)	175,205,125	47,297,991
Net change in other receivables	(8,183,096)	(133,090)	(503,672)
Difference for revenues recognized for GAAP purposes	<u>93,345,756</u>	<u>(265,143,965)</u>	<u>(160,965,519)</u>
Excess (deficiency) of revenues over (under) expenditures – GAAP basis	<u>\$ 166,003,047</u>	<u>\$ (739,732)</u>	<u>\$ (76,952,891)</u>

Supplementary Information

**Department of Human Services
State of Hawaii
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2023**

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Amount Provided to Subrecipients	Total Federal Expenditures
U.S. Department of Health and Human Services				
Other Programs				
ACL Independent Living State Grants	93.369	—	\$ -	\$ 16,000
ACL Assistive Technology	93.464	—	-	540,376
COVID-19 – Family Violence Prevention and Services/Sexual Assault/Rape Crisis Services and Support	93.497	—	124,281	124,281
COVID-19 – Promoting Safe and Stable Families	93.556	—	-	248,265
Promoting Safe and Stable Families	93.556	—	<u>1,604,619</u>	<u>1,604,619</u>
Subtotal Promoting Safe and Stable Families			1,604,619	1,852,884
Passed through State Department of Labor and Industrial Relations –				
Refugee and Entrant Assistance	93.566	2201HIRCMA	-	16,330
COVID-19 – Low-Income Home Energy Assistance	93.568	—	-	4,478,462
Low-Income Home Energy Assistance	93.568	—	-	5,798,690
Subtotal Low-Income Home Energy Assistance			-	10,277,152
COVID-19 – Chafee Education and Training Vouchers Program	93.599	—	36,220	218,511
Adoption and Legal Guardianship Incentive Payments	93.603	—	206,000	206,000
Children’s Justice Grants in States	93.643	—	110,892	110,892
Stephanie Tubbs Jones Child Welfare Services Program	93.645	—	1,214,906	1,214,906
COVID-19 – Foster Care – Title IV-E	93.658	—	-	311,552
Foster Care – Title IV-E	93.658	—	-	14,687,106
Subtotal Foster Care – Title IV-E			-	14,998,658
COVID-19 – Adoption Assistance	93.659	—	-	1,427,157
Adoption Assistance	93.659	—	-	14,281,055
Subtotal Adoption Assistance			-	15,708,212
COVID-19 – Guardianship Assistance	93.090	—	-	377,681
Guardianship Assistance	93.090	—	-	3,876,702
Subtotal Guardianship Assistance			-	4,254,383
Social Services Block Grant	93.667	—	4,798,219	14,009,924
Child Abuse Prevention and Treatment Act	93.669	—	346,420	346,420
COVID-19 – Family Violence Prevention and Services / Grants for Battered Women’s Shelters – Grants to States and Indian Tribes	93.671	—	341,689	341,689
Family Violence Prevention and Services / Grants for Battered Women’s Shelters – Grants to States and Indian Tribes	93.671	—	988,169	988,169
Subtotal Family Violence Prevention and Services / Grants for Battered Women’s Shelters – Grants to States and Indian Tribes			1,329,858	1,329,858
COVID-19 – Chafee Foster Care Independence Program	93.674	—	144,888	144,888
Chafee Foster Care Independence Program	93.674	—	<u>607,471</u>	<u>607,471</u>
Subtotal Chafee Foster Care Independence Program			752,359	752,359
COVID-19 – American Rescue Plan for APS	93.747	—	294,506	310,287
State Children’s Health Insurance Program	93.767	—	-	52,878,614
COVID-19 – Temporary Assistance for Needy Families	93.558	—	-	817,750
Temporary Assistance for Needy Families	93.558	—	<u>21,937,834</u>	<u>42,413,771</u>
Subtotal Temporary Assistance for Needy Families			<u>21,937,834</u>	<u>43,231,521</u>
Total Other Programs			<u>32,756,114</u>	<u>162,397,568</u>
Medicaid Cluster				
State Survey and Certification of Health Care Providers and Suppliers	93.777	—	-	1,002,871
COVID-19 – Medical Assistance Program	93.778	—	-	120,793,619
Medical Assistance Program	93.778	—	-	2,171,435,539
Total Medicaid Cluster			<u>-</u>	<u>2,293,232,029</u>

(continued)

See accompanying report of independent auditors and notes to the schedule of expenditures of federal awards.

**Department of Human Services
State of Hawaii
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2023**

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Amount Provided to Subrecipients	Total Federal Expenditures
CCDF Cluster				
COVID-19 – Child Care and Development Block Grant	93.575	—	-	44,743,824
Child Care and Development Block Grant	93.575	—	-	20,709,162
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	—	<u>6,140,984</u>	<u>14,275,917</u>
Total CCDF Cluster			<u>6,140,984</u>	<u>79,728,903</u>
Total – U.S. Department of Health and Human Services			<u>38,897,098</u>	<u>2,535,358,500</u>
U.S. Department of Agriculture				
Supplemental Nutrition Assistance Program Access EBT	10.537	—	-	4,892
SNAP Cluster				
Supplemental Nutrition Assistance Program (“SNAP”)	10.551	—	-	895,391,098
COVID-19 – State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	—	-	789,922
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	—	<u>1,847,721</u>	<u>32,902,538</u>
Total SNAP Cluster			<u>1,847,721</u>	<u>929,083,558</u>
Other Programs				
COVID-19 – Pandemic EBT Food Benefits (“PEBT”)	10.542	—	-	74,011,555
EBT Project – Farmer’s Market	10.545	—	-	18,960
COVID-19 – PEBT Grants to States	10.649	—	-	1,731,938
PEBT Grants to States	10.649	—	-	1,184,495
Subtotal PEBT Grants to States			<u>-</u>	<u>2,916,433</u>
Total Other Programs			<u>-</u>	<u>76,946,948</u>
Total – U.S. Department of Agriculture			<u>1,847,721</u>	<u>1,006,035,398</u>
U.S. Department of Housing and Urban Development				
COVID-19 – Emergency Solutions Grants Program	14.231	—	4,890,226	4,890,226
Emergency Solutions Grants Program	14.231	—	<u>395,740</u>	<u>487,588</u>
Subtotal Emergency Solutions Grants Program			<u>5,285,966</u>	<u>5,377,814</u>
Housing Opportunities for Persons with AIDS	14.241	—	<u>283,068</u>	<u>301,602</u>
Total – U.S. Department of Housing and Urban Development			<u>5,569,034</u>	<u>5,679,416</u>
U.S. Department of National and Community Service				
Foster Grandparent/Senior Companion Cluster				
Foster Grandparent Program	94.011	—	-	348,625
Senior Companion Program	94.016	—	-	218,350
Total Foster Grandparent/Senior Companion Cluster			<u>-</u>	<u>566,975</u>
Total – U.S. Department of National and Community Service			<u>-</u>	<u>566,975</u>
Social Security Administration				
Disability Insurance/SSI Cluster				
Social Security – Disability Insurance	96.001	—	-	7,511,687
Total Disability Insurance/SSI Cluster			<u>-</u>	<u>7,511,687</u>
Total – Social Security Administration			<u>-</u>	<u>7,511,687</u>

(continued)

See accompanying report of independent auditors and notes to the schedule of expenditures of federal awards.

**Department of Human Services
State of Hawaii
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2023**

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Amount Provided to Subrecipients	Total Federal Expenditures
U.S. Department of the Interior				
Passed through State Governor's Office –				
Economic, Social, Political Developments of the Territories	15.875	D22AF00058-00	-	31,597,128
Total – U.S. Department of the Interior			<u>-</u>	<u>31,597,128</u>
U.S. Department of Treasury				
Passed through State Governor's Office –				
COVID-19 – Coronavirus State and Local Fiscal Recovery Funds	21.027	SLRFP0134	-	22,370,070
Total – U.S. Department of Treasury			<u>-</u>	<u>22,370,070</u>
U.S. Department of Education				
Rehabilitation Services – Vocational Rehabilitation Grants to States	84.126	—	-	10,264,068
Rehabilitation Services – Independent Living Services for Older Individuals Who are Blind	84.177	—	-	588
Supported Employment Services for Individuals with the most Significant Disabilities	84.187	—	-	16,037
Total – U.S. Department of Education			<u>-</u>	<u>10,280,693</u>
Total expenditures of federal awards			<u>\$ 46,313,853</u>	<u>\$3,619,399,867</u>

(concluded)

See accompanying report of independent auditors and notes to the schedule of expenditures of federal awards.

Department of Human Services
State of Hawaii
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2023

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the Department of Human Services (the "Department") and is presented on the cash basis of accounting. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). 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, changes 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. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. Transfers

Grant awards totaling \$14.6 million were transferred from Assistance Listing ("AL") No. 93.558, *Temporary Assistance for Needy Families*, to AL No. 93.575, *Child Care and Development Block Grant* and AL No. 93.667, *Social Services Block Grant*, amounting to \$10 million and \$4.6 million, respectively.

4. Supplemental Nutrition Assistance Program

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

5. Indirect Cost Rate

The Department has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

See accompanying report of independent auditors.

PART II
Compliance and Internal Control



Independent Auditors' 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

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 the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Hawaii, Department of Human Services (the "Department"), as of and for the year ended June 30, 2023 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 28, 2024.

Report on 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") as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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. 2023-001 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 deficiency described in the accompanying schedule of findings and questioned costs as Finding No. 2023-002 to be a significant deficiency.

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Report on 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Department's Response to Findings

Government Auditing Standards requires the auditors to perform limited procedures on the Department's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The Department's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 Department'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 Department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Accuity LLP

Honolulu, Hawaii
March 28, 2024



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

The Auditor
State of Hawaii

Report on Compliance for Each Major Federal Program

Qualified and Unmodified Opinions

We have audited the State of Hawaii, Department of Human Services' (the "Department") compliance with the types of compliance requirements identified as subject to audit in the Office of Management and Budget *Compliance Supplement* that could have a direct and material effect on each of the Department's major federal programs for the year ended June 30, 2023. The Department's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Qualified Opinion on Assistance Listing ("AL") No. 93.658 and COVID-19 – 93.658, Foster Care – Title IV-E; AL No. 93.659 and COVID-19 – 93.659, Adoption Assistance; AL No. 93.090 and COVID-19 – 93.090, Guardianship Assistance; AL No. 93.558 and COVID-19 – 93.558, Temporary Assistance for Needy Families; and AL No. 10.551, 10.561 and COVID-19 – 10.561, SNAP Cluster

In our opinion, except for the noncompliance described in the Basis for Qualified and Unmodified Opinions section of our report, the Department complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on AL No. 93.658 and COVID-19 – 93.658, *Foster Care – Title IV-E*; AL No. 93.659 and COVID-19 – 93.659, *Adoption Assistance*; AL No. 93.090 and COVID-19 – 93.090, *Guardianship Assistance*; AL No. 93.558 and COVID-19 – 93.558, *Temporary Assistance for Needy Families*; and AL No. 10.551, 10.561 and COVID-19 – 10.561, *SNAP Cluster*, for the year ended June 30, 2023.

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 auditors' results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2023.

Basis for Qualified and Unmodified Opinions

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"). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

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We are required to be independent of the Department and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified and unmodified opinions on compliance for each major federal program. Our audit does not provide a legal determination of the Department’s compliance with the compliance requirements referred to above.

Matters Giving Rise to Qualified Opinion on AL No. 93.658 and COVID-19 – 93.658, Foster Care – Title IV-E; AL No. 93.659 and COVID-19 – 93.659, Adoption Assistance; AL No. 93.090 and COVID-19 – 93.090, Guardianship Assistance; AL No. 93.558 and COVID-19 – 93.558, Temporary Assistance for Needy Families; and AL No. 10.551, 10.561 and COVID-19 – 10.561, SNAP Cluster

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

Finding No.	AL No.	Program or Cluster Name	Compliance Requirement
2023-004	10.551, 10.561, & COVID-19 –10.561	SNAP Cluster	Special Tests and Provisions
2023-005	10.551, 10.561, & COVID-19 –10.561	SNAP Cluster	Special Tests and Provisions
2023-008	93.659 & COVID-19 –93.659	Adoption Assistance	Eligibility, Activities Allowed or Unallowed, Allowable Cost
2023-009	93.090 & COVID-19 –93.090	Guardianship Assistance	Eligibility, Activities Allowed or Unallowed, Allowable Cost
2023-010	93.658 & COVID-19 –93.658	Foster Care – Title IV-E	Eligibility, Activities Allowed or Unallowed, Allowable Cost
2023-011	93.558 & COVID-19 –93.558	Temporary Assistance for Needy Families	Special Tests and Provisions
2023-012	93.558 & COVID-19 –93.558	Temporary Assistance for Needy Families	Special Tests and Provisions
2023-013	93.558 & COVID-19 –93.558	Temporary Assistance for Needy Families	Reporting
2023-015	93.558 & COVID-19 –93.558	Temporary Assistance for Needy Families	Reporting
2023-016	93.558 & COVID-19 –93.558	Temporary Assistance for Needy Families	Eligibility

Compliance with such requirements is necessary, in our opinion, for the Department to comply with the requirements applicable to those programs.



Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Department's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Department's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Department's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:


- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Department's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Department's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the Department's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as Finding Nos. 2023-003, 2023-006, 2023-007, 2023-014, and 2023-017. Our opinion on each major federal program is not modified with respect to this matter.

Government Auditing Standards requires the auditors to perform limited procedures on the Department's response to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The Department's response was not subjected to the other



auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding Nos. 2023-004, 2023-005, 2023-008 through 2023-013, 2023-015 and 2023-016 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding Nos. 2023-003, 2023-006, 2023-007, 2023-014 and 2023-017 to be significant deficiencies.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditors to perform limited procedures on the Department's response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. The Department's response was not subjected to the other 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.

Accuity LLP

Honolulu, Hawaii
March 28, 2024



Schedule of Findings and Questioned Costs

**Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2023**

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued	Unmodified	
Internal control over financial reporting		
• Material weaknesses identified?	<u> X </u> yes	<u> </u> no
• Significant deficiencies identified?	<u> X </u> yes	<u> </u> none reported
Noncompliance material to financial statements noted?	<u> </u> yes	<u> X </u> no

Federal Awards

Internal control over major programs		
• Material weaknesses identified?	<u> X </u> yes	<u> </u> no
• Significant deficiencies identified?	<u> X </u> yes	<u> </u> none reported

Type of auditors’ report issued on compliance for major programs	Qualified
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A qualified opinion was issued on the Department’s compliance with its major federal programs for the year ended June 30, 2023, except for AL No. 15.875, *Economic, Social, Political Developments of the Territories*, COVID-19 – AL No. 21.027, *COVID-19 – Coronavirus State and Local Fiscal Recovery Funds*, AL No. 93.667, *Social Services Block Grant*, AL No. 93.767, *State Children’s Health Insurance Program*, and AL No. 93.777, 93.778, and COVID-19 – 93.778, *Medicaid Cluster*, for which the opinion on compliance was unmodified

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?	<u> X </u> yes	<u> </u> no
Dollar threshold used to distinguish between type A and type B program	\$10,858,200	
Auditee qualified as low-risk auditee?	<u> </u> yes	<u> X </u> no

Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2023

Identification of Major Programs

Federal AL Number	Name of Federal Program or Cluster
15.875	Economic, Social, Political Developments of the Territories
COVID-19 – 21.027	COVID-19 – Coronavirus State and Local Fiscal Recovery Funds
93.667	Social Services Block Grant
93.767	State Children’s Health Insurance Program
	SNAP Cluster
10.551	Supplemental Nutrition Assistance Program (“SNAP”)
10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program
COVID-19 – 10.561	COVID-19 – State Administrative Matching Grants for the Supplemental Nutrition Assistance Program
	Temporary Assistance for Needy Families
93.558	Temporary Assistance for Needy Families
COVID-19 – 93.558	COVID-19 – Temporary Assistance for Needy Families
	Guardianship Assistance
93.090	Guardianship Assistance
COVID-19 – 93.090	COVID-19 – Guardianship Assistance
	Foster Care – Title IV-E
93.658	Foster Care – Title IV-E
COVID-19 – 93.658	COVID-19 – Foster Care – Title IV-E
	Adoption Assistance
93.659	Adoption Assistance
COVID-19 – 93.659	COVID-19 – Adoption Assistance
	Medicaid Cluster
93.777	State Survey and Certification of Health Care Providers and Suppliers
93.778	Medical Assistance Program
COVID-19 – 93.778	COVID-19 – Medical Assistance Program

Financial Statement Findings

**Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2023**

Section II – Financial Statement Findings

Finding No. 2023-001: Preparation of Accrual Basis Financial Statements (Material Weakness)

Condition

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

- Under-accrual of payables due to the Federal government of approximately \$8.4 million.
- Under-accrual of depreciation expense of approximately \$5.5 million.
- Under-accrual of EBT issuance payments of approximately \$969 million.
- Under-accrual of accrued wages of approximately \$6.9 million.
- Under-accrual of payables due to the State of Hawaii of approximately \$57 million.
- Understatement of revenues of approximately \$15 million.
- Over-accrual of other transfers out of approximately \$1.4 million.
- Over-accrual of custodial liabilities of approximately \$229,000.

A similar finding was reported in the prior year as Finding No. 2022-001.

Criteria

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

Effect

Due to untimely submission of information, inadequate review of journal entries, and issues in accounting for capital assets, transfers, and custodial liabilities, audit adjustments were necessary to properly report the fiscal year 2023 financial statements.

Other misstatements identified were not corrected as they were deemed to be immaterial to the financial statements.

Cause and View of Responsible Officials

The deficiencies are due to inefficiencies in the financial statement preparation process, the lack of review, and inadequate staffing within the Fiscal Management Office.

**Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2023**

Recommendation

The Department of Human Services (the “Department”) should continue to develop a well-defined, systematic, efficient and orderly process for financial reporting that includes a comprehensive set of policies and procedures necessary to establish internal control over financial reporting. The process and its key attributes (e.g., overall timing, methodology, format and frequency of analysis) should be formally documented, approved, communicated to Department staff members, and monitored on a regular basis.

The Department should ensure adequate staffing within the Fiscal Management Office or procure professional services.

Furthermore, individuals who perform reviews of journal entries should be adequately trained to review for proper source codes, appropriations, and object codes being used. The Department should perform a thorough review of post-closing journal entries to ensure all items from various schedules are reflected in the post-closing journal entries. The Department should also ensure internally developed software projects are properly classified, transferred to the proper depreciable asset class when placed into service, or expensed if abandoned or otherwise not capitalized. The Department should ensure capital asset schedules are complete and accurate.

Adherence to these policies and procedures will facilitate the processing of complete, accurate and timely financial information.

**Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2023**

Finding No. 2023-002: Information Technology General Control Deficiencies (Significant Deficiency)

Condition

Information technology (“IT”) is a strategic element of the Department’s operations. Because of the high volume of transactions in the Department, the establishment of internal controls over processes incorporating IT is critical to its operations. As part of our audit of the Department’s basic financial statements as of and for the year ended June 30, 2023, we performed an IT general controls review of the following systems operated by the Department:

- HAWI
- CPSS
- KOLEA

Our review identified IT control deficiencies in the areas of logical security and change management as follows:

Logical security

HAWI and CPSS annual user access reviews were not completed to ensure access is appropriate and granted based on job responsibilities.

Procedures do not exist to maintain the effectiveness of authentication for HAWI and CPSS.

Change management

HAWI and CPSS are legacy, in-house developed systems and no formal procedures or policies in place to track program change requests and acceptance of testing and approvals for deployment to production.

HAWI and CPSS developers have access to deploy their own changes to production causing a segregation of duties concern and no monitoring requirements in place to detect unauthorized changes that may impact data integrity or cause calculation errors.

Collectively, the number and nature of the IT control deficiencies resulted in an overall significant deficiency.

Criteria

When IT is used to initiate, record, process and report on transactions included in the financial statements, the systems and related processes should include internal controls to prevent or detect potential misstatements.

Effect

Internal controls in the areas of logical security and change management address the following risks:

Logical security

Unauthorized access to financial systems could result in the loss of data, unauthorized or nonexistent transactions being made, or transactions being inaccurately recorded.

Change management

Unauthorized or untested changes promoted to the production environment could cause the financial systems to either process data differently than intended or unexpectedly compromise the integrity of the data maintained.

Cause and View of Responsible Officials

The Department’s IT policies and procedures do not include internal control procedures addressing the risks discussed above or are not being consistently followed.

Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2023

Recommendation

We recommend that the Department perform the following:

Logical security

- Implement procedures to require periodic user access reviews on an annual basis.
- Implement effective authentication requirements.

Change management

- Implement formal change management policies and procedures.
- Implement proper segregation of duties amongst those who perform development work and those who deploy changes to production.

Federal Award Findings and Questioned Costs

**Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2023**

Section III – Federal Award Findings and Questioned Costs

		Questioned Cost
Finding No. 2023-003:	Special Tests and Provisions (Significant Deficiency)	\$ _____ -
Federal Agency:	U.S. Department of Agriculture	
AL Number and Title:	10.551, 10.561, and COVID-19 – 10.561 – <i>Supplemental Nutrition Assistance Program (“SNAP”) Cluster</i>	
Award Number and Award Year:	7HI4HIS8036	2021 – 2022
	7HI400HI4	2020 – 2023
	7HI430HI4	2021 – 2023
	7HI400HI5	2020 – 2022
	7HI430HI5	2021 – 2023
	7HIHI7F1003	2021 – 2023
Repeat Finding?	Yes	

Condition

During our audit, we selected a non-statistical sample of four processing centers out of the Department’s 21 processing centers and noted that evidence of supervisor reviews over DHS Form 1494, DHS Form 1495, and/or DHS Form 1050 was not maintained at two processing centers.

Criteria

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

Effect

Documentation of supervisor approval of the review over DHS Form 1494, DHS Form 1495, and/or DHS Form 1050 was not maintained at two processing centers, increasing the risk of noncompliance with the requirement.

Cause and View of Responsible Officials

Although the Department has policies and procedures in place regarding reviews, there was a lack of diligence in following the Department’s established policies and procedures resulting in the inconsistent application and documentation of supervisor reviews.

Recommendation

We recommend that program management ensure that program personnel are familiar with all grant requirements, including compliance with 2 CFR Part 200. Additionally, we recommend that the Department be more diligent in following its existing policies and procedures to ensure compliance with the program requirements.

**Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2023**

		Questioned Cost
Finding No. 2023-004:	Special Tests and Provisions (Material Weakness)	<u>\$</u> —
Federal Agency:	U.S. Department of Agriculture	
AL Number and Title:	10.551, 10.561, and COVID-19 – 10.561 – <i>SNAP Cluster</i>	
Award Number and Award Year:	7HI4HIS8036 2021 – 2022 7HI400HI4 2020 – 2023 7HI430HI4 2021 – 2023 7HI400HI5 2020 – 2022 7HI430HI5 2021 – 2023 7HIHI7F1003 2021 – 2023	
Repeat Finding?	Yes	

Condition

During our audit, we selected a non-statistical sample of 60 daily reconciliations for testing and noted 12 instances where variances were not investigated and there was no evidence that a review of the daily reconciliation was performed. The Department’s daily reconciliations identified variances up to approximately \$26.8 million.

Criteria

Pursuant to 7 CFR 274.4, the Department is required to perform daily reconciliations of all SNAP transactions between the State’s Benefit Account, the U.S. Treasury Department, and all the EBT contractors.

Effect

Failure to resolve the reconciling items resulted in noncompliance with the requirement.

Cause and View of Responsible Officials

Although the Department has policies and procedures in place regarding reviews, the policies and procedures do not explicitly require supervisors to evidence their review resulting in the inconsistent application and documentation of supervisor reviews.

Recommendation

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

**Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2023**

		Questioned Cost
Finding No. 2023-005:	Special Tests and Provisions (Material Weakness)	<u>\$ 4,760</u>
Federal Agency:	U.S. Department of Agriculture	
AL Number and Title:	10.551, 10.561, and COVID-19 – 10.561 – <i>SNAP Cluster</i>	
Award Number and Award Year:	7HI4HIS8036	2021 – 2022
	7HI400HI4	2020 – 2023
	7HI430HI4	2021 – 2023
	7HI400HI5	2020 – 2022
	7HI430HI5	2021 – 2023
	7HIHI7F1003	2021 – 2023
Repeat Finding?	Yes	

Condition

During our audit, we selected a non-statistical sample of 60 participant files which approximated \$51,000 in monthly payments, out of a population of approximately 183,000 participant files totaling \$895 million in annual benefit payments, for testing and noted exceptions in six case files as follows:

- Four case files where manually entered income and deduction amounts did not agree with the documentation retained in the participant’s case file.
- Two case files where manually entered income information did not agree with the documentation retained in the respective participant’s case files.

Criteria

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

Effect

Participants did not receive the full amount of benefits they were eligible for, resulting in questioned costs.

Cause and View of Responsible Officials

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

**Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2023**

Recommendation

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

**Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2023**

		Questioned Cost
Finding No. 2023-006:	Special Tests and Provisions (Significant Deficiency)	<u>\$ 4,574</u>
Federal Agency:	U.S. Department of Health and Human Services	
AL Number and Title:	93.767 – <i>State Children’s Health Insurance Program</i>	
Award Number and Award Year:	2205HI5022	2023
Repeat Finding?	Yes	

Condition

During our audit, we selected a non-statistical sample of 60 providers for testing out of a population of approximately 2,010 providers. The providers selected for testing represented approximately \$3.4 million of payments out of a total payment population of \$7.0 million. We identified one provider where the DHS Form 1139 did not support revalidation within the most recent five-year period.

Criteria

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

Effect

Failure to follow the established policies and procedures in place over the provider eligibility determination process represents an instance of noncompliance with the requirements of 2 CFR Part 200, resulting in questioned costs.

Cause and View of Responsible Officials

Although the Department has policies and procedures in place requiring the maintenance of required documentation, there was a lack of diligence in complying with the policies and procedures.

Recommendation

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

**Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2023**

		Questioned Cost
Finding No. 2023-007:	Special Tests and Provisions (Significant Deficiency)	<u>\$ 16,525</u>
Federal Agency:	U.S. Department of Health and Human Services	
AL Number and Title:	93.777, 93.778, and COVID-19 – 93.778 – <i>Medicaid Cluster</i>	
Award Number and Award Year:	2205HIMAP 2022 2305HIMAP 2023	
Repeat Finding?	Yes	

Condition

During our audit, we selected a non-statistical sample of 60 providers for testing out of a population of approximately 2,010 providers. The providers selected for testing represented approximately \$61 million of payments out of a total payment population of \$234 million. We identified one provider where the DHS Form 1139 did not support revalidation within the most recent five-year period.

Criteria

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

Effect

Failure to follow the established policies and procedures in place over the provider eligibility determination process represents an instance of noncompliance with the requirements of 2 CFR Part 200, resulting in questioned costs.

Cause and View of Responsible Officials

Although the Department has policies and procedures in place requiring the maintenance of required documentation, there was a lack of diligence in complying with the policies and procedures.

Recommendation

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

**Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2023**

		Questioned Cost
Finding No. 2023-008:	Eligibility, Activities Allowed or Unallowed, Allowable Cost (Material Weakness)	<u>\$ 9,527</u>
Federal Agency:	U.S. Department of Health and Human Services	
AL Number and Title:	93.659 and COVID-19 – 93.659 – <i>Adoption Assistance</i>	
Award Number and Award Year:	2201HIADPT 2022 2301HIADPT 2023	
Repeat Finding?	Yes	

Condition

We selected a non-statistical sample of 60 case files which approximated \$44,000 in monthly benefit payments, out of a population of approximately 2,300 case files totaling \$14.2 million in annual benefit payments, for testing and noted exceptions in 20 case files as follows:

- 16 case files where the initial or modified adoption agreement was missing and therefore did not have any support for the amount of monthly assistance paid.
- Two case files where the State, Federal Bureau of Investigation (“FBI”), and/or child abuse and neglect clearances were missing.
- Two case files where the “difficulty of care” determination was missing and therefore did not have any support for the assistance amount paid.
- Four case files where the supporting documentation regarding whether the State determined that the child cannot or should not be returned to the home of his or her parents was missing.
- One case file where the final approval was granted to a household with an individual who was convicted of spousal abuse.
- One case file where the adoption decree was missing from the case records.
- One case file where the income eligibility test was missing from the case records.

Criteria

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

Department of Human Services
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Schedule of Findings and Questioned Costs
Year Ended June 30, 2023

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

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

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

Pursuant to 42 USC 673(c)(1), the State must determine whether the child cannot or should not be returned to the home of his or her parents.

Pursuant to 42 USC 671(a)(20)(A)(i), in any case involving a child on whose behalf such payments are to be so made in which a record check reveals a felony conviction for spousal abuse, such final approval shall not be granted.

Pursuant to 42 USC 675(3), the agreement for the adoption subsidy must be signed before the final decree of adoption and contains information concerning the nature of services.

Pursuant to 42 USC 673(a)(2)(D), if an adopted child received Title IV-E guardianship assistance payments, the Title IV-E agency would apply the adoption assistance criteria for the child as if the guardianship never occurred.

Effect

Failure to follow the established policies and procedures in place over the application process and determination of assistance amount represents an instance of noncompliance with the requirements of 2 CFR Part 200, resulting in questioned costs.

Cause and View of Responsible Officials

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

Recommendation

We recommend that program management ensure that program personnel are familiar with all grant requirements, including compliance with 2 CFR Part 200. Additionally, we recommend that the Department diligently comply with its policies and procedures.

**Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2023**

		Questioned Cost
Finding No. 2023-009:	Eligibility, Activities Allowed or Unallowed, Allowable Cost (Material Weakness)	<u>\$ 9,473</u>
Federal Agency:	U.S. Department of Health and Human Services	
AL Number and Title:	93.090 and COVID-19 – 93.090 – <i>Guardianship Assistance</i>	
Award Number and Award Year:	2201HIGARD 2022 2301HIGARD 2023	
Repeat Finding?	Yes	

Condition

We selected a non-statistical sample of 60 case files which approximated \$47,000 in monthly benefit payments, out of a population of approximately 375 case files totaling \$3.9 million in annual benefit payments, for testing and noted exceptions in 21 case files as follows:

- 17 case files where the initial or modified guardianship/permanency assistance agreement was missing and therefore did not have any support for the amount of monthly assistance paid.
- Two case files where the “difficulty of care” determination was missing and therefore did not have any support for the assistance amount paid.
- Two case files where we were unable to determine if a child who attained the age of 14 was consulted regarding the kinship guardianship agreement.
- One case file where the State, FBI, and/or child abuse and neglect clearances were missing in the case files.
- One case file where documentation regarding continuation of monthly subsidy payments after the child’s 18th birthday was missing.

Criteria

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

**Department of Human Services
State of Hawaii
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Year Ended June 30, 2023**

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

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

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

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

Effect

Failure to follow the established policies and procedures in place over the application process and determination of assistance amount, represent an instance of noncompliance with the requirements specified above, resulting in questioned costs.

Cause and View of Responsible Officials

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

Recommendation

We recommend that program management ensure that program personnel are familiar with all grant requirements including compliance with 2 CFR Part 200. Additionally, we recommend that the Department diligently comply with its policies and procedures.

**Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2023**

		Questioned Cost
Finding No. 2023-010:	Eligibility, Activities Allowed or Unallowed, Allowable Cost (Material Weakness)	<u>\$ 5,248</u>
Federal Agency:	U.S. Department of Health and Human Services	
AL Number and Title:	93.658 and COVID-19 – 93.658 – <i>Foster Care – Title IV-E</i>	
Award Number and Award Year:	2201HIFOST 2022 2301HIFOST 2023	
Repeat Finding?	Yes	

Condition

We selected a non-statistical sample of 60 case files which approximated \$43,000 in monthly benefit payments, out of a population of approximately 480 case files which totaled \$4.89 million in annual benefit payments, for testing and noted exceptions in 11 case files as follows:

- Three case files where the Police Protective Custody form or Voluntary Foster Custody Agreement was missing and therefore did not support whether the child was removed as part of a voluntary placement agreement or judicial determination.
- Seven case files where the state, FBI, and/or child abuse and neglect clearances were missing.
- One case file where the “difficulty of care” determination was missing and therefore did not support the assistance amount paid.
- One case file where the Certificate of Approval was missing and therefore did not support whether the prospective foster parents were licensed.
- One case file where the Judicial Determination was missing and therefore did not support the removal of the child was contrary to the welfare of the child, if DHS made reasonable efforts to prevent removal and finalize the permanency plan, and if the determination was within 60 days from removal.
- One case file where the monthly meeting minutes for Imua Kakou were missing and therefore did not support the monthly meeting requirements at the option of the State.

Criteria

Pursuant to 42 USC 672(a)(2), the State must determine whether the removal and foster care placement of a child was in accordance with a voluntary placement agreement or judicial determination.

Pursuant to 42 USC 675(4)(A), the foster care maintenance payments should cover the cost of (and the cost of providing) food, clothing, shelter, daily supervision, and a child’s personal incidentals.

**Department of Human Services
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Schedule of Findings and Questioned Costs
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Pursuant to 42 USC 672(c)(1)(A), a foster family home means the home of an individual family that is licensed or approved by the State in which it is situated as a foster family home that meets the standards established for the licensing or approval.

Pursuant to 42 USC 671(a)(20)(A), any prospective foster parent must satisfactorily have met a criminal records check, including a fingerprint-based check of national crime information databases, before the foster parent may be finally approved for placement of a child.

Pursuant to 45 CFR 1356.21(b), a Judicial Determination must determine reasonable efforts to prevent a child's removal from the home, reasonable efforts to finalize a permanency plan, and circumstances in which reasonable efforts are not required to prevent a child's removal from home or to reunify the child and family, before the child is determined to be eligible under Title IV-E.

Pursuant to 42 USC 675(b)(8), a State may elect to continue benefits for a child who has reached 18 years of age (until 22 years of age) who is completing secondary education or a program leading to an equivalent credential; enrolled in an institution which provides post-secondary or vocational education; participating in a program or activity designed to promote, or remove barriers to, employment; employed for at least 80 hours per month; or incapable of doing any of the activities described in subclauses (I) through (IV) due to a medical condition, which incapability is supported by regularly updated information in the case plan of the child.

Effect

Failure to follow the established policies and procedures in place over the application process and determination of assistance amount represents instances of noncompliance with the requirements above resulting in questioned costs.

Cause and View of Responsible Officials

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

Recommendation

We recommend that program management ensure that program personnel are familiar with all grant requirements, including compliance with 2 CFR Part 200. Additionally, we recommend that the Department diligently comply with its policies and procedures.

**Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2023**

		Questioned Cost
Finding No. 2023-011:	Special Tests and Provisions (Material Weakness)	<u>\$ 2,085</u>
Federal Agency:	U.S. Department of Health and Human Services	
AL Number and Title:	93.558 and COVID-19 – 93.558 – <i>Temporary Assistance for Needy Families (“TANF”)</i>	
Award Number and Award Year:	1402HITAN3	2014 – 2022
	1601HITAN3	2016 – 2022
	2101HITANF	2020 – 2022
	2201HITANF	2021 – 2022
	2301HITANF	2022 – 2023
	2101HITANFC6	2020 – 2022
Repeat Finding?	Yes	

Condition

We selected a non-statistical sample of 60 case files for testing and noted five instances where the Department’s records did not support the use of the income information obtained through Income Eligibility and Verification System (“IEVS”) to evaluate or re-evaluate the benefit calculation.

Criteria

Pursuant to 45 CFR 205.55, the Department is required to request through the IEVS, wage information, unemployment compensation, Social Security Administration, unearned income, and any other income information.

Effect

Failure to properly use IEVS information to determine eligibility and evaluate benefit amounts may result in potential overpayment of benefits to ineligible participants.

Cause and View of Responsible Officials

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

Recommendation

We recommend that program management ensure that program personnel are familiar with all grant requirements. Additionally, we recommend that the Department diligently comply with its policies and procedures.

**Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2023**

		Questioned Cost
Finding No. 2023-012:	Special Tests and Provisions (Material Weakness)	<u>\$ 19,748</u>
Federal Agency:	U.S. Department of Health and Human Services	
AL Number and Title:	93.558 and COVID-19 – 93.558 – <i>TANF</i>	
Award Number and Award Year:	1402HITAN3	2014 – 2022
	1601HITAN3	2016 – 2022
	2101HITANF	2020 – 2022
	2201HITANF	2021 – 2022
	2301HITANF	2022 – 2023
	2101HITANFC6	2020 – 2022
Repeat Finding?	Yes	

Condition

We selected a non-statistical sample of 10 participant files for testing out of a population of 99 participant files that were initially determined by the Title IV-D agency as not cooperating with the child support enforcement requirements. We noted seven files did not contain any correspondence, notices or documentation to indicate whether any follow-up action, up to and including case closure and cessation of benefits, were performed.

Criteria

Pursuant to 45 CFR 264.30, the Title IV-A agency is required to take appropriate action, as defined, if the Title IV-D agency determines that an individual is not cooperating with the child support enforcement requirements.

Effect

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

Cause and View of Responsible Officials

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

Recommendation

We recommend that program management ensure that program personnel are familiar with all grant requirements. Additionally, we recommend that the Department diligently comply with its policies and procedures.

**Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2023**

		Questioned Cost												
Finding No. 2023-013:	Reporting (Material Weakness)	\$ _____												
Federal Agency:	U.S. Department of Health and Human Services													
AL Number and Title:	93.558 and COVID-19 – 93.558 – TANF													
Award Number and Award Year:	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;">1402HITAN3</td> <td style="width: 50%;">2014 – 2022</td> </tr> <tr> <td>1601HITAN3</td> <td>2016 – 2022</td> </tr> <tr> <td>2101HITANF</td> <td>2020 – 2022</td> </tr> <tr> <td>2201HITANF</td> <td>2021 – 2022</td> </tr> <tr> <td>2301HITANF</td> <td>2022 – 2023</td> </tr> <tr> <td>2101HITANFC6</td> <td>2020 – 2022</td> </tr> </table>		1402HITAN3	2014 – 2022	1601HITAN3	2016 – 2022	2101HITANF	2020 – 2022	2201HITANF	2021 – 2022	2301HITANF	2022 – 2023	2101HITANFC6	2020 – 2022
1402HITAN3	2014 – 2022													
1601HITAN3	2016 – 2022													
2101HITANF	2020 – 2022													
2201HITANF	2021 – 2022													
2301HITANF	2022 – 2023													
2101HITANFC6	2020 – 2022													
Repeat Finding?	Yes													

Condition

During our audit, we tested a non-statistical sample of six subawards and found no evidence that the reporting required by Section 2, *Full Disclosure of Entities Receiving Federal Funding*, of the Federal Funding Accountability and Transparency Act (“FFATA”) was completed.

Transactions Tested	Subaward Not Reported	Report Not Timely	Subaward Amount Incorrect	Subaward Missing Key Elements
6	6	0	0	0
Dollar Amount of Tested Transactions	Subaward Not Reported	Report Not Timely	Subaward Amount Incorrect	Subaward Missing Key Elements
\$1,775,000	\$1,775,000	\$0	\$0	\$0

Criteria

Section 2, *Full Disclosure of Entities Receiving Federal Funding*, of the FFATA requires an entity to report subcontracts made under federally-awarded contracts by the end of the month following the month in which the prime recipient awards any subgrant greater than or equal to \$30,000.

Effect

Failure to file required reports reduced transparency on the use of program funds and represents noncompliance with the requirements of 2 CFR Part 200.

Cause and View of Responsible Officials

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

Recommendation

We recommend that the Department develop policies and procedures to ensure required FFATA reports are filed.

**Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2023**

		Questioned Cost
Finding No. 2023-014:	Special Tests and Provisions (Significant Deficiency)	<u>\$ 2,457</u>
Federal Agency:	U.S. Department of Health and Human Services	
AL Number and Title:	93.558 and COVID-19 – 93.558 – TANF	
Award Number and Award Year:	1402HITAN3	2014 – 2022
	1601HITAN3	2016 – 2022
	2101HITANF	2020 – 2022
	2201HITANF	2021 – 2022
	2301HITANF	2022 – 2023
	2101HITANFC6	2020 – 2022
Repeat Finding?	Yes	

Condition

We selected a non-statistical sample of 60 participants for testing out of a population of approximately 4,400 participants whose work participation activity was reported on the ACF-199 and noted exceptions with six participants as follows:

- We noted one instance where a work eligible participant complied with their work participation plan, but the Department inaccurately reported the corresponding participant as noncompliant.
- We noted three instances where a work eligible participant did not comply with their work participation plan, but the Department inaccurately reported the corresponding participants as not participating and not subject to sanction.
- We noted one instance where a non-work eligible participant was inaccurately excluded from the report.
- We noted one instance where a work eligible participant did not comply with their work participation plan, but the Department inaccurately reported the corresponding participant as deemed engaged in work.

Criteria

Pursuant to 45 CFR 265.3(b)(1), on a quarterly basis, the Department is required to submit disaggregated information on families receiving TANF benefits, which includes demographic data such as work participation activities.

Effect

Failure to report accurate work participation information limits the Department’s ability to demonstrate compliance with the requirement and could result in noncompliance with the minimum work participation rate requirements.

**Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2023**

Cause and View of Responsible Officials

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

Recommendation

We recommend that program management ensure that program personnel are familiar with all grant requirements. Additionally, we recommend that the Department diligently comply with its policies and procedures.

**Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2023**

		Questioned Cost
Finding No. 2023-015:	Reporting (Material Weakness)	\$ <u> </u> –
Federal Agency:	U.S. Department of Health and Human Services	
AL Number and Title:	93.558 and COVID-19 – 93.558 – <i>TANF</i>	
Award Number and Award Year:	1402HITAN3 2014 – 2022 1601HITAN3 2016 – 2022 2101HITANF 2020 – 2022 2201HITANF 2021 – 2022 2301HITANF 2022 – 2023 2101HITANFC6 2020 – 2022	
Repeat Finding?	Yes	

Condition

The Department achieved a two-parent work participation rate of 18%, which is below the federally mandated rate of 32.2%, calculated by subtracting the caseload reduction credit of 57.8% from the base 90.0%.

Criteria

Pursuant to 45 CFR 261.23, a State must achieve a 90% minimum two-parent participation rate minus any caseload reduction credit to which it is entitled.

Pursuant to 45 CFR 261.40(a)(2)(i), the minimum two-parent participation rate the State must meet decreases by the number of percentage points the prior-year two-parent caseload, including two-parent cases receiving assistance under a separate State program, fell in comparison to the FY 2005 two-parent caseload, including two-parent cases receiving assistance under a separate State program.

Effect

Failure to meet the minimum two-parent work participation rate may result in a reduction in the amount of State family assistance grants received.

Cause and View of Responsible Officials

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

Recommendation

We recommend that program management ensure that program personnel are familiar with all grant requirements. Additionally, we recommend that the Department diligently comply with its policies and procedures.

**Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2023**

		Questioned Cost
Finding No. 2023-016:	Eligibility (Material Weakness)	<u>\$ 1,539</u>
Federal Agency:	U.S. Department of Health and Human Services	
AL Number and Title:	93.558 and COVID-19 – 93.558 – TANF	
Award Number and Award Year:	1402HITAN3	2014 – 2022
	1601HITAN3	2016 – 2022
	2101HITANF	2020 – 2022
	2201HITANF	2021 – 2022
	2301HITANF	2022 – 2023
	2101HITANFC6	2020 – 2022
Repeat Finding?	Yes	

Condition

We selected a non-statistical sample of 60 participant files, representing approximately \$38,000 of benefit payments, out of a population of approximately 7,000 cases, representing approximately \$15.8 million of benefit payments, for testing and noted exceptions in four case files as follows:

- Two case files where benefit payments were incorrectly calculated.
- Two case files where the interview process was not conducted within the forty-five (45) day timeframe required by the State Plan.

Criteria

The TANF State Plan states that a review of all eligibility requirements is required every 12 months for all TANF households. The State Plan also states that for the Department to make a decision regarding an applicant’s eligibility, an interview must be conducted with the applicant no later than forty-five (45) days after the application is received. In addition, Administration for Children and Families (“ACF”) program instruction TANF-ACF-PI-2020-01 indicates that States may make program changes but must submit a plan amendment within 30 days of the program changes. The program instruction recommends that the State seek guidance from ACF on whether a particular action is allowable under program requirements.

Effect

Failure to follow the established procedures in place over the eligibility determination process and to submit a plan amendment or to seek guidance from ACF on whether a particular action is allowable under program requirements, resulted in noncompliance with the requirement and questioned costs.

Cause and View of Responsible Officials

The Department has a history of backlogged cases, which does not allow them to work on current issue when they arise.

Recommendation

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

**Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2023**

		Questioned Cost
Finding No. 2023-017:	Cash Management (Significant Deficiency)	<u>\$ 122,940</u>
Federal Agency:	U.S. Department of Health and Human Services	
AL Number and Title:	93.667 – <i>Social Services Block Grant</i>	
Award Number and Award Year:	2101HISOSR	2020 – 2022
	2201HISOSR	2021 – 2023
	2301HISOSR	2022 – 2024
Repeat Finding?	No	

Condition

During our audit, we selected a non-statistical sample of 40 advance payments and for three advance payments we were unable to determine the time elapsed between the drawdown of federal funds and the related disbursement for program purposes.

Criteria

Pursuant to 31 CFR 205.33(a), the Department is required to minimize the time between the drawdown of Federal funds and their disbursement for Federal program purposes.

Effect

Failure to track and match the drawdown of federal funds with the related disbursements for program purposes limits the Department’s ability to demonstrate compliance with the requirement and resulted in questioned costs.

Cause and View of Responsible Officials

Program management indicated that they were unaware of the cash management requirement.

Recommendation

We recommend that program management ensure that program personnel are familiar with all grant requirements. Additionally, we recommend that the Department diligently comply with its policies and procedures.

JOSH GREEN, M.D.
GOVERNOR
KE KIA'ĀINA



CATHY BETTS
DIRECTOR
KA LUNA HO'OKELE

JOSEPH CAMPOS II
DEPUTY DIRECTOR
KA HOPE LUNA HO'OKELE

STATE OF HAWAII
KA MOKU'ĀINA O HAWAI'I
DEPARTMENT OF HUMAN SERVICES
KA 'OIHANA MĀLAMA LAWELAWE KANAKA
Office of the Director
P. O. Box 339
Honolulu, Hawaii 96809-0339

TRISTA SPEER
DEPUTY DIRECTOR
KA HOPE LUNA HO'OKELE

AQCRO 24.001

March 28, 2024

Mr. Donn Nakamura, Audit Partner
Accuity LLP
999 Bishop Street
Suite 1900
Honolulu, Hawaii 96813

Dear Mr. Nakamura:

In accordance with 2 CFR 200.511(c), we have enclosed the Department of Human Services' views of responsible officials and corrective action plans related to the State Fiscal Year (SFY) 2023 audit report findings and recommendations.

If you have any questions regarding these corrective action plans or need assistance in other areas of the SFY 2023 audit, please contact Vickie Edu, Chief Auditor, at (808) 586-4878.

Sincerely,

Cathy Betts
Director

Enclosure

Summary Schedule of Prior Audit Findings

**Department of Human Services
State of Hawaii
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2023**

Finding	Description	Type	Status		Current Year Finding
			Resolved	Unresolved	
2022-001	Preparation of Accrual Basis Financial Statements	Material Weakness		X	2023-001
2022-002	Special Tests and Provisions – U.S. Department of Health and Human Services, Medicaid Cluster	Material Weakness		X	2023-007
2022-003	Special Tests and Provisions – U.S. Department of Health and Human Services, Medicaid Cluster	Material Weakness	X		
2022-004	Special Tests and Provisions – U.S. Department of Health and Human Services, State Children’s Health Insurance Program	Material Weakness		X	2023-006
2022-005	Special Tests and Provisions – U.S. Department of Health and Human Services, State Children’s Health Insurance Program	Material Weakness	X		
2022-006	Special Tests and Provisions – U.S. Department of Agriculture, Supplemental Nutrition Assistance Program Cluster	Material Weakness		X	2023-004
2022-007	Special Tests and Provisions – U.S. Department of Agriculture, Supplemental Nutrition Assistance Program Cluster	Material Weakness		X	2023-005
2022-008	Eligibility, Activities Allowed or Unallowed, Allowable Cost – U.S. Department of Health and Human Services, Adoption Assistance	Material Weakness		X	2023-008
2022-009	Eligibility, Activities Allowed or Unallowed, Allowable Cost – U.S. Department of Health and Human Services, Guardianship Assistance	Material Weakness		X	2023-009

Department of Human Services
State of Hawaii
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2023

Finding	Description	Type	Status		Current Year Finding
			Resolved	Unresolved	
2022-010	Special Tests and Provisions – U.S. Department of Health and Human Services, Temporary Assistance for Needy Families	Material Weakness		X	2023-011
2022-011	Eligibility – U.S. Department of Health and Human Services, Temporary Assistance for Needy Families	Material Weakness		X	2023-016
2022-012	Special Tests and Provisions – U.S. Department of Health and Human Services, Temporary Assistance for Needy Families	Material Weakness		X	2023-012
2022-013	Reporting – U.S. Department of Health and Human Services, Temporary Assistance for Needy Families	Material Weakness		X	2023-013
2022-014	Special Tests and Provisions – U.S. Department of Health and Human Services, Temporary Assistance for Needy Families	Significant Deficiency		X	2023-014
2022-015	Eligibility, Activities Allowed or Unallowed, Allowable Cost – U.S. Department of Health and Human Services, Foster Care – Title IV-E	Material Weakness		X	2023-010
2022-016	Reporting – U.S. Department of Health and Human Services, Temporary Assistance for Needy Families	Material Weakness		X	2023-015
2022-017	Special Tests and Provisions – U.S. Department of Agriculture, Supplemental Nutrition Assistance Program Cluster	Significant Deficiency		X	2023-003

Department of Human Services
State of Hawaii
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2023

Corrective Actions Taken for Unresolved Findings

Finding No. 2022-001: Preparation of Accrual Basis Financial Statements

The Department continues to evaluate the process related to identification and recording of accruals. As a current year finding (Finding No. 2023-001) is reported, Finding No. 2022-001 will not be carried forward.

Finding No. 2022-002: Special Tests and Provisions

Corrective actions were taken in fiscal year 2023 to mitigate a number of the previously reported deficiencies; however, corrective action is still ongoing. As a current year finding (Finding No. 2023-007) is reported, Finding No. 2022-002 will not be carried forward.

Finding No. 2022-004: Special Tests and Provisions

Corrective actions were taken in fiscal year 2023 to mitigate a number of the previously reported deficiencies; however, corrective action is still ongoing. As a current year finding (Finding No. 2023-006) is reported, Finding No. 2022-004 will not be carried forward.

Finding No. 2022-006: Special Tests and Provisions

No corrective action was taken in fiscal year 2023. As a current year finding (Finding No. 2023-004) is reported, Finding No. 2022-006 will not be carried forward.

Finding No. 2022-007: Special Tests and Provisions

No corrective action was taken in fiscal year 2023. As a current year finding (Finding No. 2023-005) is reported, Finding No. 2022-007 will not be carried forward.

Finding No. 2022-008: Eligibility, Activities Allowed or Unallowed, Allowable Cost

Corrective actions were taken in fiscal year 2023; however, corrective action is still ongoing. As a current year finding (Finding No. 2023-008) is reported, Finding No. 2022-008 will not be carried forward.

Finding No. 2022-009: Eligibility, Activities Allowed or Unallowed, Allowable Cost

Corrective actions were taken in fiscal year 2023; however, corrective action is still ongoing. As a current year finding (Finding No. 2023-009) is reported, Finding No. 2022-009 will not be carried forward.

Finding No. 2022-010: Special Tests and Provisions

No corrective action was taken in fiscal year 2023. As a current year finding (Finding No. 2023-011) is reported, Finding No. 2022-010 will not be carried forward.

Finding No. 2022-011: Eligibility

No corrective action was taken in fiscal year 2023. As a current year finding (Finding No. 2023-016) is reported, Finding No. 2022-011 will not be carried forward.

Finding No. 2022-012: Special Tests and Provisions

Corrective actions were taken in fiscal year 2023 to mitigate a number of the previously reported deficiencies; however, corrective action is still ongoing. As a current year finding (Finding No. 2023-012) is reported, Finding No. 2022-012 will not be carried forward.

Finding No. 2022-013: Reporting

No corrective action was taken in fiscal year 2023. As a current year finding (Finding No. 2023-013) is reported, Finding No. 2022-013 will not be carried forward.

Department of Human Services
State of Hawaii
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2023

Finding No. 2022-014: Special Tests and Provision

No corrective action was taken in fiscal year 2023. As a current year finding (Finding No. 2023-014) is reported, Finding No. 2022-014 will not be carried forward.

Finding No. 2022-015: Eligibility, Activities Allowed or Unallowed, Allowable Cost

No corrective action was taken in fiscal year 2023. As a current year finding (Finding No. 2023-010) is reported, Finding No. 2022-015 will not be carried forward.

Finding No. 2022-016: Reporting

No corrective action was taken in fiscal year 2023. As a current year finding (Finding No. 2023-015) is reported, Finding No. 2022-016 will not be carried forward.

Finding No. 2022-017: Special Tests and Provisions

The Electronic Benefit Transfer Office continues to improve its internal controls to comply with requirements; however, corrective action is still ongoing. As a current year finding (Finding No. 2023-003) is reported, Finding No. 2022-017 will not be carried forward.

Corrective Action Plan

State of Hawaii
 Department of Human Services
 Corrective Action Plans for Findings and Recommendations
 For the State Fiscal Year Ended June 30, 2023

Finding	Views of Responding Officials, Corrective Action Plans, Expected Completion Date, Responding Officials
2023-001	<p>Views of Responsible Officials: The Department agrees with the finding and will implement corrective action.</p> <p>Corrective Action Taken or Planned: We will be re-evaluating our process related to the identification and recording of accruals and post-closing journal entries to ensure that the impact arising from changes in operations or circumstances is given the appropriate consideration. Developing specific procedures and subsequent training of staff will be addressed. We will also be procuring professional services to assist with the journal entries and financial statements.</p> <p>Expected Completion Date: December 31, 2024</p> <p>Responding Official(s): Derek Oshiro, Fiscal Management Office Chief Accountant and Eric Nouchi, Med-QUEST Division Finance Officer</p>
2023-002	<p>Views of Responsible Officials: The Department agrees with the finding.</p> <p>Corrective Action Taken or Planned: No corrective action was submitted.</p> <p>Expected Completion Date: On-going</p> <p>Responding Official(s): Ryan Shimamura, Chief Information Officer</p>
2023-003	<p>Views of Responding Officials: The Department agrees with the finding and will implement corrective action.</p> <p>Corrective Action Taken or Planned: The two processing centers that did not document the supervisor reviews were using the wrong outdated forms that did not have the added column (03/2022) to document that the review took place.</p> <p>A reminder will be sent out to the Branch, the Section Administrators, and all Processing Center Supervisors to instruct the Processing Centers to use the DHS 1494, 1495, and 1050 forms dated 03/2022, which clearly instructs the Supervisors to date and initial the last column of the form to verify when and by whom the review took place.</p> <p>Completion Date: March 2024</p> <p>Responding Official(s): Sabrina Young, Benefit, Employment, and Support Services Division Electronic Benefit Transfer Project Manager</p>

State of Hawaii
 Department of Human Services
 Corrective Action Plans for Findings and Recommendations
 For the State Fiscal Year Ended June 30, 2023

Finding	Views of Responding Officials, Corrective Action Plans, Expected Completion Date, Responding Officials
2023-004	<p>Views of Responding Officials: The Department agrees with the finding and will implement corrective action.</p> <p>Corrective Action Taken or Planned: The Fiscal Management Office will work with the Office of Information Technology to create a report to assist us with reconciling the fiscal agent’s daily reports.</p> <p>Completion Date: June 30, 2024</p> <p>Responding Official(s): Joey Wong, Fiscal Management Office Accountant</p>
2023-005	<p>Views of Responding Officials: The Department agrees with the finding and will implement corrective action.</p> <p>Corrective Action Taken or Planned: The Supplemental Nutrition and Assistance Program office has worked with the Statewide Branch and the Staff Development offices to address refresher training associated with budget calculations including the documentation and input of all data correctly. The Department is also in the process of finalizing the new eligibility system – Benefit Eligibility Solution – slated to rollout statewide by late October 2024. As a condition of system rollout, all staff will be required to go through system training which will include a reinforcement of data entry practices and documentation requirements as a condition of eligibility determination.</p> <p>Completion Date: October 31, 2024</p> <p>Responding Official(s): Ginet Hayes, Benefit, Employment, and Support Services Division Supplemental Nutrition and Assistance Program Administrator</p>
2023-006	<p>Views of Responding Officials: The Department agrees with the finding and will implement corrective action.</p> <p>Corrective Action Taken or Planned: The Department has identified a gap in training and education that caused a failure to enforce the contract requirement for plans to submit audited financial statements pursuant to 42 CFR 438.3(m). Training and education were completed. The Department has engaged with a vendor to implement our new online provider enrollment system HOKU on 08/03/2020 and started the process to have all providers re-register their information in the new online system. All providers were given a deadline to do this by 12/31/2023 and, if missed, they would be terminated in 2024.</p> <p>Completion Date: April 30, 2024</p> <p>Responding Official(s): Marvin Malohi, Med-QUEST Division Supervising Contracts Specialist</p>

State of Hawaii
 Department of Human Services
 Corrective Action Plans for Findings and Recommendations
 For the State Fiscal Year Ended June 30, 2023

Finding	Views of Responding Officials, Corrective Action Plans, Expected Completion Date, Responding Officials
2023-007	<p>Views of Responding Officials: The Department agrees with the finding and will implement corrective action.</p> <p>Corrective Action Taken or Planned: The Department has identified a gap in training and education that caused a failure to enforce the contract requirement for plans to submit audited financial statements pursuant to 42 CFR 438.3(m). Training and education were completed. The Department has engaged with a vendor to implement our new online provider enrollment system HOKU on 08/03/2020 and started the process to have all providers re-register their information in the new online system. All providers were given a deadline to do this by 12/31/2023 and, if missed, they would be terminated in 2024.</p> <p>Completion Date: April 30, 2024</p> <p>Responding Official(s): Marvin Malohi, Med-QUEST Division Supervising Contracts Specialist</p>
2023-008	<p>Views of Responding Officials: The Department agrees with the finding and will implement corrective action.</p> <p>Adoption Assistance is an incentive program with payment beginning prior to the finalization of an adoption. The adoption decree is not required for payment as the Adoption Assistance Agreement must be entered into prior to the finalization of an adoption.</p> <p>Corrective Action Taken or Planned:</p> <ol style="list-style-type: none"> 1. Child Welfare Service (CWS) staff will be informed of the audit findings, the importance of diligent compliance of policies and procedures, records maintenance, and this corrective action plan. 2. All unit staff who manages cases identified with errors in this audit will be retrained, ensuring familiarity with grant requirements and related policies and procedures. <ul style="list-style-type: none"> • Staff will be given coaching/supervisory support to correctly complete documentation. 3. Case specific audit findings and corrective action taken will be noted in each record where there was a finding. <ul style="list-style-type: none"> • Research/review and document why licensing approval was granted to a household with an individual who was convicted of spousal abuse. <ol style="list-style-type: none"> i. If review determines that Adoption Assistance Agreement (AAA) was inappropriately authorized, provide family with an adverse action notice discontinuing the AAA and explaining the appeals process. • Investigate whether supporting documentation regarding whether the State determined that the child cannot or should not be returned to the home of his or her parents can be located and added to the record.

State of Hawaii
 Department of Human Services
 Corrective Action Plans for Findings and Recommendations
 For the State Fiscal Year Ended June 30, 2023

Finding	Views of Responding Officials, Corrective Action Plans, Expected Completion Date, Responding Officials
	<ul style="list-style-type: none"> • Secure a copy of the missing adoption decree, although adoption assistance is an incentive program with payment beginning prior to the finalization of an adoption. • Document the qualifying need for Difficulty of Care (DOC) determination for the records, showing how DOC was calculated. • Document how income eligibility was verified. • Secure missing modified adoption agreements. • Locate missing clearances or re-run them if not located. Note: Not all clearances are secured prior to placement; Federal Bureau of Investigations (FBI) clearances come later and are NOT required prior to placement in a “provisionally licensed” home. <p>4. The identified errors and related corrective action steps proposed above will be reviewed by CWS Administrators, staff supervisors, and the Management Information Compliance Unit (MICU) within 90 days to ensure missing documentation has been secured and/or properly noted in record.</p> <p>5. MICU staff will audit records with findings to ensure errors have been documented and corrected.</p> <ul style="list-style-type: none"> • MICU will work with Branch Administrators, Social Services Assistants (SSA), and program personnel to ensure file updates with completion of missing information. <p>6. As CWS implements this corrective action plan and monitors the results, the action steps proposed in steps 1–5 may be modified, based on input from CWS Administrators or exploration groups with line staff who complete this documentation.</p> <p>Completion Date: May 31, 2024</p> <p>Responding Official(s): Kisha C. Raby, Social Services Division Program Development Administrator; Tonia Mahi, Social Services Division Assistant Child Welfare Services Branch Administrator</p>
2023-009	<p>Views of Responding Officials: The Department agrees with the finding and will implement corrective action.</p> <p>Corrective Action Taken or Planned:</p> <ol style="list-style-type: none"> 1. Child Welfare Service (CWS) staff will be informed of the audit findings, the importance of diligent compliance of policies and procedures, records maintenance, and this corrective action plan.

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	<p>2. All unit staff who manages cases identified with errors in this audit will be retrained, ensuring familiarity with grant requirements and related policies and procedures.</p> <ul style="list-style-type: none"> • Staff will be given coaching/supervisory support to correctly complete documentation. <p>3. Case specific audit findings and corrective action taken will be noted in each record where there was a finding.</p> <ul style="list-style-type: none"> • Secure a copy of the missing modified guardianship/permanency assistance agreement, demonstrating support for the monthly assistance paid. • Document the qualifying need for Difficulty of Care (DOC) determination for the records, showing how DOC was calculated. • Investigate whether the child who attained the age of 14 was consulted regarding the kinship guardianship agreement. Discuss this with the youth and document. • Locate missing clearances or re-run them if not located, placing note in record about audit re-run. Note: Not all clearances are secured prior to placement; Federal Bureau of Investigations FBI clearances come later and are NOT required prior to placement in a “provisionally licensed” home. • Secure documentation for case regarding continuation of monthly subsidy payments after the child’s 18th birthday. <p>4. The identified errors and related corrective action steps proposed above will be reviewed by CWS Administrators, staff supervisors, and the Management Information Compliance Unit (MICU) within 90 days to ensure missing documentation has been secured and/or properly noted in record.</p> <p>5. MICU staff will audit records with findings to ensure errors have been documented and corrected.</p> <ul style="list-style-type: none"> • MICU will work with Branch Administrators, Social Services Assistants (SSA), and program personnel to ensure file updates with completion of missing information. <p>6. As CWS implements this corrective action plan and monitors the results, the action steps proposed in steps 1–5 may be modified, based on input from CWS Administrators or exploration groups with line staff who complete this documentation.</p> <p>Completion Date: May 31, 2024</p> <p>Responding Official(s): Kisha C. Raby, Social Services Division Program Development Administrator</p>

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2023-010	<p>Views of Responding Officials: The Department agrees with the finding and will implement corrective action.</p> <p>Corrective Action Taken or Planned:</p> <ol style="list-style-type: none"> 1. Child Welfare Service (CWS) staff will be informed of the audit findings, the importance of diligent compliance of policies and procedures, records maintenance, and this corrective action plan. 2. All unit staff who manages cases identified with errors in this audit will be retrained, ensuring familiarity with grant requirements and related policies and procedures. <ul style="list-style-type: none"> • Staff will be given coaching/supervisory support to correctly complete documentation. 3. Case specific audit findings and corrective action taken will be noted in each record where there was a finding. <ul style="list-style-type: none"> • Locate Police Protective Custody form, Voluntary Foster Custody Agreement, or other documentation which clarifies whether the child was removed as part of a voluntary placement agreement or judicial determination. • Locate missing clearances or re-run them if not located, placing note in record about audit re-run. Note: Not all clearances are secured prior to placement; FBI clearances come later and are NOT required prior to placement in a “provisionally licensed” home. • Document the qualifying need for Difficulty of Care (DOC) determination for the records, showing how DOC was calculated. • Review resource caregiver licensing status and locate missing license or reissue license. • Investigate the case where the Judicial Determination was missing and therefore did not support the removal of the child was contrary to the welfare of the child, if the Department made reasonable efforts to prevent removal and finalize the permanency plan, and if the determination was within 60 days from removal. <ol style="list-style-type: none"> i. Locate court order documenting “contrary to welfare” language, verifying timelines, and place in record and document findings. ii. Locate missing Imua Kakou minutes or secure additional documentation validating monthly meeting requirement was met. 4. The identified errors and related corrective action steps proposed above will be reviewed by CWS Administrators, staff supervisors, and the Management Information Compliance Unit (MICU) within 90 days to ensure missing documentation has been secured and/or properly noted in record.

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	<p>5. MICU staff will audit records with findings to ensure errors have been documented and corrected.</p> <ul style="list-style-type: none"> • MICU will work with Branch Administrators, Social Services Assistants (SSA), and program personnel to ensure file updates with completion of missing information. <p>6. As CWS implements this corrective action plan and monitors the results, the action steps proposed in steps 1–5 may be modified, based on input from CWS Administrators or exploration groups with line staff who complete this documentation.</p> <p>Completion Date: May 31, 2024</p> <p>Responding Official(s): Kisha C. Raby, Social Services Division Program Development Administrator</p>
2023-011	<p>Views of Responding Officials: The Department agrees with the finding and will implement corrective action, however, notes the following: According to 45 CFR section 205.55, it states, "...the State agency will request through the Income Eligibility and Verification System (IEVS) ...". However, the policy does not specify the State agency must "properly use IEVS information to evaluate benefit amounts..." as notated in this finding under "Effect."</p> <p>Unless IEVS provides the necessary information for the applicable benefit month(s) used to determine a Temporary Assistance for Needy Families (TANF) applicant's or recipient's (client) eligibility, information obtained will only validate whether a household received an income source, after the fact, but will not verify the dollar amount. Hard-copy verification is obtained from the client to verify income source and dollar amount, for the applicable benefit months, to determine eligibility in accordance with §17- 676-51, Hawaii Administrative Rules. For example, if a client applied for TANF on January 31, 2024, and the department processes the application on February 29, 2024 (current month), verification of the household's income received in January 2024 and received thus far in February 2024, must be obtained to determine eligibility for the month of application (January 2024) and subsequent months (based on projected income). Data obtained from IEVS are not current. For example, wage information through the State Work Injury Compensation Act (SWICA) becomes available on a quarterly basis. The most current SWICA information available would have been for quarter ending December 31, 2023, for an application that was processed on February 29, 2024. Eligibility determination would have been improperly made if SWICA information was applied.</p> <p>Corrective Action Taken or Planned: The Department will continue to conduct IEVS check and utilize information obtained to determine eligibility if the information is applicable, otherwise, IEVS information will continue to be used to validate any source of income.</p> <p>Completion Date: On-going</p> <p>Responding Official(s): Catherine Scardino, Benefit, Employment, and Support Services Division Temporary Assistance for Needy Families Program Administrator</p>

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2023-012	<p>Views of Responding Officials: The Department agrees with the finding and will implement corrective action, however, notes the following:</p> <p>The referrals to the Child Support Enforcement Agency (CSEA) are done through an interface between the HAWI eligibility and CSEA's KEIKI systems. When a recipient is determined non-compliant by CSEA, the information is sent via the interface from KEIKI to HAWI in the form of a system-generated alert. This process worked well when application processing and maintenance of recipient cases were done in a case management method (e.g., each eligibility worker assigned to process applications and/or maintain a caseload of active cases). Utilizing this method, eligibility workers managed their caseloads and checked for incoming alerts for cases assigned to them; these alerts included the CSEA non-compliant alerts coming from KEIKI system. Workers were able to take appropriate and timely action in response to the alerts received. However, necessary changes were made to how applications and active cases are managed. The division stopped the case management method and converted to "task- oriented" processing statewide. Workers are no longer assigned to caseloads but are assigned to "tasks" such as processing applications, incoming documents/verifications, reported changes, 6-month review and annual recertifications, etc. A case is not reviewed and worked in HAWI until a worker is prompted to do so, e.g., 6-month review, annual recertification, or a change was reported by the household. It is until such action occurs when an eligibility worker, who picks up the task, will check for alerts for the case. Aside from that, recipient cases will not be reviewed during their certification period. So how the "alerts" were developed in HAWI no longer works for the way we currently process applications and maintain recipient cases. We are unable to modify the HAWI system because we are currently developing a new eligibility system that will replace HAWI. The new eligibility system is scheduled to go into production in late 2024.</p> <p>Corrective Action Taken or Planned: As an interim solution until the new eligibility system rolls out into production, a shared folder is being created where CSEA will place the monthly reports of non-cooperating Temporary Assistance for Needy Families (TANF) cases so designated TANF staff members, who are granted access to the shared folder, will be able to retrieve the reports.</p> <p>TANF Program Administrator will review the identified TANF cases. Individual lists will be forwarded to the Section Administrators to instruct the affected Processing Centers to take appropriate action (i.e., TANF case closure due to non-compliance with CSEA).</p> <p>Completion Date: July 1, 2024</p> <p>Responding Official(s): Catherine Scardino, Benefit, Employment, and Support Services Division Temporary Assistance for Needy Families Program Administrator</p>

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2023-013	<p>Views of Responding Officials: The Department agrees with the finding and will implement corrective action.</p> <p>Corrective Action Taken or Planned: Subawards will be entered into the Federal Subaward Reporting System (FSRS) within the appropriate timeframe following the execution of the contract.</p> <p>Completion Date: Not applicable as reporting of federal subawards is an on-going requirement.</p> <p>Responding Official(s): Catherine Scardino, Benefit, Employment, and Support Services Division Temporary Assistance for Needy Families Program Administrator</p>
2023-014	<p>Views of Responding Officials: The Department agrees with the finding and will implement corrective action, however, notes the following:</p> <p>On March 4, 2024, during the process of making corrections to cases rejected by Administration for Children and Families (ACF), it was discovered that one of the jobs that uploads the current First-To-Work (FTW) file did not function properly resulting in the back-up file for the previous month being used for the current report month. This resulted in incorrect work participation data reported on the ACF-199 for the fiscal year ended 2023.</p> <p>Corrective Action Taken or Planned: Corrections are being made for the fiscal year ended 2023 ACF-199 reports and are being rerun. The final annual ACF-199 report for the fiscal year ended 2023 will be resubmitted to ACF before the deadline of 03/29/24.</p> <p>Completion Date: March 29, 2024</p> <p>Responding Official(s): Catherine Scardino, Benefit, Employment, and Support Services Division Temporary Assistance for Needy Families Program Administrator</p>
2023-015	<p>Views of Responding Officials: The Department agrees with the finding and will implement corrective action.</p> <p>Hawaii implemented an upfront work participation requirement as a condition of eligibility for Temporary Assistance for Needy Families (TANF) applicants beginning 2009. The purpose of the upfront work participation is to prepare applicant families to engage in the TANF work program. Our state temporarily amended its TANF State Plan in response to the COVID-19 pandemic, suspending the upfront work participation requirements, described in Part B, section 15.1, effective March 27, 2020. This suspension coupled with relaxed administrative policies for all means-tested programs which included TANF, Supplemental Nutrition Assistance Program (SNAP), and our state-funded General Assistance and Aid to the Aged, Blind and Disabled, and operational changes statewide allowed the department to process applications expeditiously ensuring eligible families have access to their financial assistance benefits quickly.</p>

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	<p>In March 2020, Hawaii’s unemployment rate was as low as 2.2% (seasonally adjusted) but it increased considerably to 22.6% in April 2020 following the state’s first shut-down due to the COVID-19 pandemic. The state’s TANF caseload increased by about 177%, from March 2020 with 3,969 recipient families to 7,040 families in December 2020 following the state’s second shut-down.</p> <p>While the upfront work program participation was suspended as a condition of eligibility for TANF applicants, Hawaii still required recipients to participate with the work program after they were determined eligible for TANF benefits. The good cause provision was exercised judiciously and to the extent allowable under TANF federal regulations and Hawaii administrative rules. Our TANF work program extended its services to provide families the opportunities to receive additional support such as case management and counseling services; to access information and referrals to community resources such as housing assistance and food distribution events; and to receive assistance in navigating through programs, benefits, and services that our department and other government agencies have available during this period of economic downturn resulting from the health emergency.</p> <p>It was not until March 25, 2022, when then Governor David Y. Ige ended the state’s emergency proclamation relating to COVID-19. The department continued to suspend the upfront work participation requirements through May 31, 2023, allowing a transition period to adjust our operations. The upfront work participation requirement as a condition of eligibility was reinstated for families who applied for TANF financial assistance benefits beginning June 1, 2022, with only four months remaining in the fiscal year. Other administrative policies that were temporarily suspended or amended in response to the pandemic were reinstated effective July 1, 2022.</p> <p>The public health emergency and heightened period of COVID-19 restrictions forced the Benefit, Employment and Support Services Division (BESSD), who oversees the TANF and other means-tested public assistance programs, to immediately modify its operations statewide, ensuring the continuity of its programs and services and making them more accessible to the public. It was important to provide BESSD a transition period to review its policies and operational procedures and allows its staff of over 650 employees to adjust after two years of operating programs and services in a manner that was unprecedented for the division.</p> <p>On January 17, 2024, the TANF program office met with the Statewide Branch Administration (SBA), who oversees the state First-To-Work (FTW) program staff, to discuss the concerns regarding the work participation rates, active TANF recipients who were referred to FTW but not yet participating in the program, and strategies to address the concerns. Subsequently, on January 25, 2024, SBA held a meeting with the state FTW unit supervisors to share the concerns raised on the work participation rates and to solicit comments and suggestions. TANF program administrator and lead program specialist were in attendance to notate comments and suggestions.</p>

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	<p>Corrective Action Taken or Planned: Pursuant to 45 CFR 262.5, the department requested consideration for reasonable cause from the Administration for Children and Families (ACF), for not meeting the two-parent work participation rate for fiscal year 2022. Response and determination from ACF is pending.</p> <p>The FTW unit supervisors were instructed, during the January 25, 2024 meeting, to invite and schedule the active TANF recipients, who were referred but not yet participating, to attend a work program orientation as soon as possible. It is expected that remaining active TANF recipients will be invited to the FTW program by March 31, 2024.</p> <p>TANF program office is exploring the suggestions received during the January 25, 2024 meeting with SBA and FTW unit supervisors. For example, it was suggested that the FTW program provide additional supportive service payments to participants, who are in countable non-employment related work activities, to incentivize them to maintain their program engagement. However, this suggestion has a fiscal impact and will require the FTW program administrative rules to be amended before it can be implemented.</p> <p>The TANF program office plans to require both parents of two-parent households to participate in the FTW program. Due to capacity issues of both state and contract staff, only one parent is required to participate and meet work program requirements for the TANF recipient household. The TANF caseloads have declined; therefore, capacity is no longer a concern.</p> <p>Completion Date: March 31, 2025</p> <p>Responding Official(s): Catherine Scardino, Benefit, Employment, and Support Services Division Temporary Assistance for Needy Families Program Administrator</p>
2023-016	<p>Views of Responding Officials: The Department agrees with the finding and will implement corrective action, however, notes the following:</p> <p>Letter dated 04/29/22 was sent to the Administration for Children and Families (ACF) notifying them of the temporary amendment to the Hawaii Temporary Assistance for Needy Families (TANF) State Plan, Part B, Section 10.1, suspending the interview requirement for TANF applications and annual recertification. The temporary suspension of the interview requirement aligned with the waiver granted by the Food and Nutrition Service for the Supplemental Nutrition Assistance Program (SNAP). The letter also informed ACF the interview requirement will resume for new TANF applications by July 31, 2022. No date was provided as to when the interview requirement will resume for annual recertifications. The department received a letter dated 05/09/22 from ACF that acknowledged the temporary amendment to the Hawaii TANF State Plan.</p> <p>Subsequent letter dated 03/16/23 was sent to inform ACF that the suspended interview resumed for TANF applications effective 07/01/22, however, will continue to be suspended for annual</p>

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	<p>eligibility recertifications for TANF recipients. The department received a letter dated 03/29/23 from ACF that acknowledged the temporary State Plan amendment.</p> <p>Letter dated 07/25/23 informed ACF that TANF will continue to align with SNAP and extend its suspended interview requirement for annual recertifications until May31, 2024. The department received a letter dated 08/03/23 from ACF that acknowledged the extended temporary amendment to the State Plan.</p> <p>The department did not need guidance from ACF on whether a particular action is allowable under program requirements. Pursuant to section 402 of the Social Security Act, ACF has the authority to determine whether a state’s TANF State Plan is complete but does not have the authority to approve or disapprove a plan. ACF acknowledged the temporary amendments made to the Hawaii TANF State Plan and expressed no concerns or determined that the temporary amendments were not allowable.</p> <p>Corrective Action Taken or Planned: No corrective action. The temporary amendment to the Hawaii TANF State Plan will end effective June 1, 2024, as noted in the 07/25/23 letter to ACF.</p> <p>Completion Date: Not applicable</p> <p>Responding Official(s): Catherine Scardino, Benefit, Employment, and Support Services Division Temporary Assistance for Needy Families Program Administrator</p>
2023-017	<p>Views of Responding Officials: The Department agrees with the finding and will implement corrective action.</p> <p>Corrective Action Taken or Planned: The Department’s Fiscal Management Office will update and change their procedure by using the entire prior year payroll allotment first, instead of re-classing expenditures to the current year. This will eliminate the excess cash that was sitting in the account.</p> <p>Completion Date: June 2025</p> <p>Responding Official(s): Daisy L. Hartsfield, Social Services Division Administrator; Carolina B. Anagaran, Social Services Division Support Services Office Administrator; Kisha C. Raby, Social Services Division, Child Welfare Services Program Development Office Administrator; Rachel Thorburn, Child Welfare Services Program Development Office Assistant Administrator; and Joey Wong, Fiscal Management Office Accountant</p>