

**Department of Health
State of Hawaii**

Financial Statements
June 30, 2023
Together with Independent Auditor's Report

Submitted by

**THE AUDITOR
STATE OF HAWAII**



March 22, 2024

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

Dear Mr. Kondo:

This is our report on the financial audit of the Department of Health, the State of Hawaii (Department) as of and for the fiscal year ended June 30, 2023. Our audit was performed in accordance with the terms of our contract with the State of Hawaii and with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) and Government Auditing Standards, Audits of States, Local Governments, and Non-Profit Organizations.

OBJECTIVES OF THE AUDIT

The primary purpose of our audit was to form opinions on the fairness of the presentation of the Department's basic financial statements as of and for the fiscal year ended June 30, 2023, and to comply with the requirements of the Uniform Guidance. The objectives of the audit were as follows:

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

SCOPE OF THE AUDIT

Our audit was performed in accordance with auditing standards generally accepted in the United States of America as prescribed by the American Institute of Certified Public Accountants; *Government Auditing Standards*, issued by the Comptroller General of the United States; and the provisions of the Uniform Guidance. The scope of our audit included an examination of the transactions and accounting records of the Department for the fiscal year ended June 30, 2023.

ORGANIZATION OF THE REPORT

This report is presented in six parts as follows:

- Part I – The basic financial statements and related notes to the financial statements of the Department as of and for the fiscal year ended June 30, 2023, and our opinion on the basic financial statements.
- Part II – Our report on internal control over financial reporting and on compliance and other matters.
- Part III – Our report on compliance for each major program and internal control over compliance.
- Part IV – The schedule of findings and questioned costs.
- Part V – The summary schedule of prior audit findings.
- Part VI – Corrective action plan as provided by the Department.

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

Sincerely,



James Y. Nakayama
Principal

Table of Contents

	Page
PART I FINANCIAL SECTION	
Independent Auditor’s Report	7 - 10
Management’s Discussion and Analysis	11 - 22
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Position	23
Statement of Activities	24
Fund Financial Statements	
Balance Sheet - Governmental Funds	25
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	26
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	27
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	28
General Fund – Statement of Revenues and Expenditures – Budget and Actual	29
Special Revenue Funds – Statement of Revenues and Expenditures – Budget and Actual	30
Statement of Net Position - Proprietary Funds	31
Statement of Revenues, Expenses and Changes in Net Position - Proprietary Funds	32
Statement of Cash Flows - Proprietary Funds	33
Statement of Fiduciary Net Position – Private-Purpose Trust Fund	34
Statement of Changes in Fiduciary Net Position – Private-Purpose Trust Fund	35
Notes to Basic Financial Statements	36-79
Supplementary Information:	
Schedule of Expenditures of Federal Awards	81-85
Notes to the Schedule of Expenditures of Federal Awards	86

Table of Contents (continued)

	Page
PART II	
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	87-89
PART III	
REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE	90-95
PART IV	
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	96-119
PART V	
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	120-127
PART VI	
CORRECTIVE ACTION PLAN	128-134

PART I
FINANCIAL SECTION



A Hawaii Limited Liability Partnership

Independent Auditor's Report

Office of the Auditor
State of Hawaii

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Department of Health, State of Hawaii (Department), as of and for the fiscal year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

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

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) 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 Auditor's 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 audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Department are intended to present the financial position, the changes in financial position, and, where applicable, its cash flows and budgetary comparisons, of only that portion of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of Hawaii that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2023, the changes in financial position, or, where applicable, its cash flows and budgetary comparisons, for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

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 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's 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 auditor's 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 GAAS 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 GAAS 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 purpose 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 11 through 22 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*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information 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 22, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

KMH LLP

KMH LLP

Honolulu, Hawaii

March 22, 2024

Department of Health

State of Hawaii

Management Discussion and Analysis
June 30, 2023

This Management's Discussion and Analysis (MD&A) presents a narrative overview and analysis of the financial activities and performance of the Department of Health, State of Hawaii (the Department) during the fiscal year that ended on June 30, 2023. Please read it in conjunction with the Department's financial statements and the related notes to the basic financial statements (which follow this section). The following is a brief description of the contents of those three sections:

Overview of the Basic Financial Statements

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

Government-Wide Financial Statements

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

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

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

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

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

Department of Health

State of Hawaii

Management Discussion and Analysis
June 30, 2023

Fund Financial Statements

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

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

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

To reiterate, the Department has three types of funds:

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

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

Department of Health State of Hawaii

Management Discussion and Analysis
June 30, 2023

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

Notes to the Basic Financial Statements

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

Government-wide Financial Highlights

The Department's total net position increased from \$1,336.4 million as of June 30, 2022 to \$1,451.7 million as of June 30, 2023, or by approximately \$115.3 million. The total increase in net position was attributed to increases in the Department's governmental activities net position of \$74.7 million and business-type activities' net position of \$40.6 million during the year.

The Department's governmental activities reported an aggregate increase in net position of approximately \$74.7 million during the year totaling \$579.4 million at June 30, 2023. Note that this is based on the net position at June 30, 2022 of \$504.7 million.

The Department's proprietary funds, consisting of two revolving loan funds, reported an increase in net position of \$40.6 million for fiscal year (FY) 2023. Total net position was \$831.6 million at June 30, 2022 compared to \$872.2 million at June 30, 2023.

Department of Health State of Hawaii

Management Discussion and Analysis
June 30, 2023

Government-Wide Financial Analysis

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

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

	Governmental Activities		Business-Type Activities		Total	
	2023	2022	2023	2022	2023	2022
Current assets	\$ 502,373	\$ 463,725	\$ 194,036	\$ 173,815	\$ 696,409	\$ 637,540
Capital assets	239,256	238,805	216	539	239,472	239,344
Loans receivable, noncurrent	-	-	690,981	670,769	690,981	670,769
Total assets	<u>741,629</u>	<u>702,530</u>	<u>885,233</u>	<u>845,123</u>	<u>1,626,862</u>	<u>1,547,653</u>
Deferred outflows of resources	-	-	1,515	1,309	1,515	1,309
Current liabilities	134,423	173,854	592	789	135,015	174,643
Long term liabilities	27,783	23,931	12,328	12,279	40,111	36,210
Total liabilities	<u>162,206</u>	<u>197,785</u>	<u>12,920</u>	<u>13,068</u>	<u>175,126</u>	<u>210,853</u>
Deferred inflows of resources	-	-	1,598	1,718	1,598	1,718
Net position						
Net investment in capital						
assets	239,256	238,805	216	539	239,472	239,344
Restricted	68,758	45,908	872,014	831,107	940,772	877,015
Unrestricted	271,409	220,032	-	-	271,409	220,032
Total net position	<u>\$ 579,423</u>	<u>\$ 504,745</u>	<u>\$ 872,230</u>	<u>\$ 831,646</u>	<u>\$ 1,451,653</u>	<u>\$ 1,336,391</u>

As noted earlier, changes in net position may serve over time as a useful indicator of the Department's financial position. As of June 30, 2023, the Department's total net position was approximately \$1,451.7 million.

Department of Health State of Hawaii

Management Discussion and Analysis
June 30, 2023

At June 30, 2023, in addition to equity in cash and cash equivalents in the state treasury approximating \$527.6 million, the Department had total loans receivable from county governments in the amount of \$753.0 million arising from its two revolving loan funds. The Department had total liabilities of \$175.1 million at June 30, 2023 of which \$16.0 million relates to accrued wages and employee benefits payable. Approximately \$50.1 million in liabilities relate to vouchers and contracts payable. At June 30, 2023, restricted net position was \$940.8 million. The restrictions arise from legal and contractual agreements.

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

	Governmental Activities		Business-Type Activities		Total	
	2023	2022	2023	2022	2023	2022
Revenue:						
Program revenues:						
Charges for services	\$ 41,300	\$ 37,513	\$ 8,784	\$ 8,247	\$ 50,084	\$ 45,760
Operating grants and contributions	231,021	298,087	36,389	24,168	267,410	322,255
General revenues:						
State appropriated funds	417,398	504,096	-	-	417,398	504,096
Non-imposed fringe benefits	77,681	74,943	-	-	77,681	74,943
Hawaii tobacco settlement special fund	40,513	38,093	-	-	40,513	38,093
Settlement of opioid claims	69,531	-	-	-	69,531	-
Environmental fees and taxes	51,964	53,661	-	-	51,963	53,661
Total revenues	929,408	1,006,393	45,173	32,415	974,580	1,038,808
Expenditures:						
General administration	46,272	129,212	-	-	46,272	129,212
Environmental health	76,012	76,633	12,437	8,585	88,449	85,218
Behavioral health services	398,042	364,373	-	-	398,042	364,373
Health resources	304,686	381,778	-	-	304,686	381,778
Total expenditures	825,012	951,996	12,437	8,585	837,449	960,581
Excess (deficiency) before transfers	104,396	54,397	32,736	23,830	137,131	78,227
Transfers	(29,718)	(29,922)	7,848	4,664	(21,869)	(25,258)
Change in net position	74,678	24,475	40,584	28,494	115,262	52,969
Net position:						
Beginning of year	504,745	480,270	831,646	803,152	1,336,391	1,283,422
End of year	\$ 579,423	\$ 504,745	\$ 872,230	\$ 831,646	\$ 1,451,653	\$ 1,336,391

Department of Health State of Hawaii

Management Discussion and Analysis
June 30, 2023

Governmental activities increased the Department's net position by \$74.7 million in FY 2023, which was a 14.8 percent increase from FY 2022. The overall increase in governmental activities is the result of decrease in revenues offset by a larger decrease in expenditures. Revenues decreased by \$77.0 million and expenditures decreased by \$127.0 million.

Revenues of the Department's business-type activities, which increased by \$12.8 million from FY 2022, consist of the Department's environmental loan programs, one for water pollution control and the other for drinking water treatment. These revenues were generated from charges for services, program investment income, and federal assistance program funds as well as state matching funds. Charges for services consist primarily of administration loan fees and interest income on loans related to the Department's two revolving loan programs. The majority of the programs' investment income is from the Department's participation in the State Treasury Investment Pool System.

For the fiscal year ended June 30, 2023, business-type activities increased the Department's net position by \$40.6 million to \$872.2 million as compared to the fiscal year ended June 30, 2022.

Total government-wide expenditures for FY 2023 were \$837.4 million of which \$825.0 million was for governmental activities. As compared to FY 2022, total government-wide expenditures were \$960.6 million of which \$952.0 million was for governmental activities. Overall, the Department is organized into four major administrations.

The Department's Behavioral Health Services Administration expended 48.2 percent or \$398.0 million of departmental funds with an increase of \$33.7 million compared to FY 2022. This administration is responsible for providing available and coordinated mental health and substance abuse treatment and prevention programs. Programs within this administration are:

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

Department of Health State of Hawaii

Management Discussion and Analysis
June 30, 2023

The Department's Health Resources Administration expended 36.9 percent or \$304.7 million of departmental funds with a decrease of \$77.1 million compared to FY 2022. Major programs in this administration include:

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

The Department's Environmental Health Administration is responsible for the management of the clean air, clean water, solid and hazardous waste, public health sanitation, vector control, and purity of food and drugs. It expended approximately 10.6 percent or \$88.4 million of the departmental funds with an increase of \$3.2 million expended compared to FY 2022 on a government-wide basis. This administration also manages both the Water Pollution Control Revolving and the Drinking Water Treatment Revolving Loan Funds.

Finally, the Department's General Administration provides the overall leadership and oversight for the Department. It includes administrative support staff, three district health offices, and six administratively attached agencies. This administration expended approximately 5.5 percent or \$46.3 million of the departmental funds with a decrease of \$82.9 million expended compared to FY 2022.

Department of Health State of Hawaii

Management Discussion and Analysis
June 30, 2023

Governmental Funds Financial Analysis

The following table presents revenues and expenditures of the governmental funds for FY2023 and FY2022 (\$000):

	<u>2023</u>	<u>2022</u>
Revenues:		
State general fund allotments	\$ 417,398	\$ 504,096
Intergovernmental	223,757	295,542
Non-imposed fringe benefits	77,681	74,943
Taxes, fees, fines and other	65,161	63,584
Hawaii tobacco settlement special fund	40,513	38,093
Deposit beverage container deposit special fund	32,607	32,728
Settlement of opioid claims	12,426	-
Investment income	4,840	1,002
	<u>874,383</u>	<u>1,009,988</u>
Expenditures:		
General administration	51,392	124,129
Environmental health	74,198	77,363
Behavioral health services	387,982	362,422
Health resources	302,141	382,552
	<u>815,713</u>	<u>946,466</u>
Total expenditures	<u>815,713</u>	<u>946,466</u>
Excess of revenues over expenditures before transfers	<u>\$ 58,670</u>	<u>\$ 63,522</u>

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

During the fiscal year ended June 30, 2023, general fund revenues were \$487.1 million, including \$77.5 million for fringe benefits paid directly from the State general fund. General fund expenditures were \$494.1 million.

In FY 2023, the DBCDSF earned revenues of \$32.6 million from beverage container deposit administrative fees and unredeemed containers income. Of this amount received, \$23.7 million in expenditures were paid to redemption centers or utilized to fund the program. The fund collected \$51.2 million in deposits from distributors and repaid \$28.2 million in deposits to consumers during FY 2023.

Department of Health State of Hawaii

Management Discussion and Analysis
June 30, 2023

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

The WPCRF accounts for federal and state funds used to provide loans to county governments for the construction of wastewater treatment facilities and the repayment of principal, interest and fees from such loans and investment of such monies. During FY 2023, WPCRF received \$12.6 million and \$3.9 million of federal and state funds, respectively. WPCRF also disbursed \$60.1 million in loan proceeds and collected \$44.6 million in principal repayments in 2023. As compared to 2022, the fund collected \$12.3 million and \$2.5 million in federal and state contributions, respectively, disbursed \$56.1 million in loan proceeds, and collected \$39.2 million in principal payments.

The DWTRLF accounts for federal and state funds used to provide loans and other types of financial assistance to public water systems for drinking water infrastructure and the repayment of principal interest and fees from such loans and the investment of such monies. During FY 2023, DWTRLF received \$20.5 million and \$4.0 million of federal and state funds, respectively. DWTRLF also disbursed \$30.1 million in loan proceeds and collected \$14.9 million in principal repayments in 2023. As compared to 2022, the DWTRLF collected \$10.7 million and \$2.2 million in federal and state contributions, respectively, disbursed \$24.2 million in loan proceeds, and collected \$14.4 million in principal payments.

**Department of Health
State of Hawaii**

Management Discussion and Analysis
June 30, 2023

Budgetary Analysis

The following budget information relates to the general fund, deposit beverage container deposit special fund and coronavirus state fiscal recovery funds – emergency medical service for 2023:

	Budgeted Amounts (\$000)		Actual on a Budgetary
	Original	Final	Basis (\$000)
General fund			
Revenues	\$ 555,628	\$ 546,551	\$ 441,218
Expenditures			
General administration	100,860	106,644	31,116
Environmental health	43,603	26,085	22,973
Behavioral health	320,133	321,731	300,244
Health resources	91,031	92,091	86,885
Deposit beverage container deposit special fund			
Revenues	71,139	71,165	59,911
Expenditures	71,139	71,165	68,618
Coronavirus state fiscal recovery funds - emergency medical service			
Revenues	46,990	46,990	46,990
Expenditures	46,990	46,990	46,990

The deposit beverage container program recognized revenues on a budgetary basis of \$59.9 million, which is based on the actual number of containers sold. In fiscal year 2022, there were 1,022.2 million containers sold. The amount of containers sold increased to 1,024.3 million in fiscal year 2023.

Department of Health State of Hawaii

Management Discussion and Analysis
June 30, 2023

Capital Assets

As of June 30, 2023, the Department's governmental activities had invested approximately \$239.3 million (net of accumulated depreciation) in a broad range of capital assets. See Note 4 to the Department's basic financial statements for a description of capital assets activities for the fiscal year ended June 30, 2023.

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

	<u>2023</u>	<u>2022</u>
Land	\$ 1,018	\$ 1,018
Land improvements	6,826	3,305
Buildings and building improvements	386,705	381,370
Furniture and equipment	32,899	32,905
Right of use asset – buildings	3,955	1,097
Right of use asset – equipment	99	29
Subscription asset	807	-
Total	432,309	419,724
Accumulated depreciation	(191,841)	(180,705)
Accumulated amortization	(1,212)	(214)
Total capital assets, net	<u>\$ 239,256</u>	<u>\$ 238,805</u>

Currently Known Facts, Decisions, or Conditions

On March 4, 2020, in response to a new disease commonly known as COVID-19 caused by a novel strain of coronavirus, Hawaii Governor David Y. Ige proclaimed the spread of COVID-19 in Hawaii to be a disaster and declared a state of emergency in Hawaii. Several emergency proclamations have been issued. COVID-19 in Hawaii continues to have an impact. Although the Federal COVID-19 Public Health Emergency declaration ended on May 11, 2023, there are still ongoing activities.

In FY 2023 and 2022, AMHD serviced 7,390 clients. AMHD's Crisis Line of Hawaii (formerly known as Access Line) continues to provide short term confidential counseling, information about available help, and mobile support services in a crisis. As of July 1, 2020, the Crisis Line of Hawaii has been consolidated with the Behavioral Health Administration's Hawaii CARES program.

Department of Health State of Hawaii

Management Discussion and Analysis
June 30, 2023

In the developmental disabilities program, the number of participants served by the Developmental Disabilities Division (DDD) increased by 137 participants in FY 2023 over FY 2022. In FY 2023, the DDD served 3,324 participants compared to 3,187 in FY 2022.

The number of DDD participants enrolled in the 1915(c) Home and Community-Based Services (HCBS) waiver decreased by 241 participants in FY 2023 from FY 2022. In FY 2023, there were 2,884 participants enrolled in the HCBS waiver as compared to 3,125 participants in FY 2022.

Further, the Federal Medical Assistance Percentage (FMAP) increased from 53.02 percent to 53.64 percent effective for the period October 2021 to September 2022. The FMAP increased from 53.64 percent to 56.06 percent for the period October 2022 to September 2023. Due to the COVID-19 pandemic, the Families First Coronavirus Response Act provided an additional FMAP of 6.2 percent increase effective January 1, 2020 until the end of the quarter in which the Public Health Emergency period ends. Additionally, the additional FMAP decreased from 6.2 percent to 5 percent for the period April 2023 to June 2023.

And lastly, the WPCRF executed a total of six loan agreements for \$76.4 million during FY 2023. DWTRLF executed a total of five loan agreements for \$44.8 million during FY 2023.

**Department of Health
State of Hawaii**

Statement of Net Position
June 30, 2023

	Governmental Activities	Business-Type Activities	Total
<u>Assets and Deferred Outflows of Resources</u>			
Current Assets:			
Equity in cash and cash equivalents and investments in State treasury	\$ 400,676,254	\$ 126,917,816	\$ 527,594,070
Receivables:			
Due from State Treasury	-	2,388,884	2,388,884
Due from other State agency	1,946,271	-	1,946,271
Accrued interest and loan fees	669,151	2,407,916	3,077,067
Accounts receivable, net of allowance for doubtful accounts of \$2,046,673	8,625,968	-	8,625,968
Due from Federal government	14,179,501	319,034	14,498,535
Opioid settlement receivable	57,105,488	-	57,105,488
Tobacco settlement receivable	19,170,196	-	19,170,196
Current maturities of loans receivable	-	62,002,915	62,002,915
Total current assets	502,372,829	194,036,565	696,409,394
Loans Receivable, net of current maturities	-	690,980,935	690,980,935
Capital Assets, net of accumulated amortization and depreciation	239,256,253	215,710	239,471,963
Total assets	741,629,082	885,233,210	1,626,862,292
Deferred Outflows of Resources			
Total assets and deferred outflows of resources	\$ 741,629,082	\$ 886,748,110	\$ 1,628,377,192
<u>Liabilities, Deferred Inflows of Resources, and Net Position</u>			
Current Liabilities:			
Vouchers payable	\$ 49,952,595	\$ 181,684	\$ 50,134,279
Accrued wages and employee benefits payable	15,712,248	240,451	15,952,699
Unearned revenue	25,620,494	-	25,620,494
Accrued vacation, current portion	10,990,743	169,370	11,160,113
Workers' compensation liability	9,576,721	-	9,576,721
Due to other State agencies	19,170,196	-	19,170,196
Beverage container deposits	2,572,405	-	2,572,405
Lease liability, current portion	553,712	-	553,712
Subscription liability	264,392	-	264,392
Accrued interest liability	9,296	-	9,296
Total current liabilities	134,422,802	591,505	135,014,307
Accrued Vacation, net of current portion	24,917,439	328,301	25,245,740
Lease Liability, net of current portion	2,865,991	-	2,865,991
Net Pension Liability	-	6,499,674	6,499,674
Net Other Postemployment Benefits Liability	-	5,499,875	5,499,875
Total liabilities	162,206,232	12,919,355	175,125,587
Deferred Inflows of Resources			
	-	1,598,261	1,598,261
Net Position:			
Net investment in capital assets	239,256,253	215,710	239,471,963
Restricted for:			
Loans	-	872,014,784	872,014,784
Trust fund programs	24,471,637	-	24,471,637
Medicaid programs	44,285,806	-	44,285,806
Unrestricted	271,409,154	-	271,409,154
Total net position	579,422,850	872,230,494	1,451,653,344
Total liabilities, deferred inflows of resources, and net position	\$ 741,629,082	\$ 886,748,110	\$ 1,628,377,192

See accompanying notes to the basic financial statements.

**Department of Health
State of Hawaii**

Statement of Activities

For the Fiscal Year Ended June 30, 2023

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:						
General administration	\$ 46,272,447	\$ 1,900,235	\$ 17,536,469	\$ (26,835,743)	\$ -	\$ (26,835,743)
Environmental health administration	76,011,598	10,984,038	15,841,007	(49,186,553)	-	(49,186,553)
Behavioral health services administration	398,042,501	6,701,103	36,143,429	(355,197,969)	-	(355,197,969)
Health resources administration	304,685,524	21,714,824	161,500,177	(121,470,523)	-	(121,470,523)
Total governmental activities	825,012,070	41,300,200	231,021,082	(552,690,788)	-	(552,690,788)
Business-type Activities --						
Environmental Health Loan Programs	12,437,257	8,784,072	36,389,488	-	32,736,303	32,736,303
Total Department	\$ 837,449,327	\$ 50,084,272	\$ 267,410,570	(552,690,788)	32,736,303	(519,954,485)
General Revenues:						
State general fund allotments, net				417,398,486	-	417,398,486
Nonimposed employee fringe benefits				77,680,687	-	77,680,687
Hawaii tobacco settlement special fund				40,512,842	-	40,512,842
Settlement of opioid claims				69,531,115	-	69,531,115
Tobacco tax				17,179,467	-	17,179,467
Deposit beverage container fee				32,606,621	-	32,606,621
Environmental response tax				1,313,431	-	1,313,431
Advance glass disposal fee				864,102	-	864,102
Total general revenues				657,086,751	-	657,086,751
Transfers				(29,717,737)	7,848,000	(21,869,737)
Change in net position				74,678,226	40,584,303	115,262,529
Net Position at July 1, 2022				504,744,624	831,646,191	1,336,390,815
Net Position at June 30, 2023				\$ 579,422,850	\$ 872,230,494	\$ 1,451,653,344

See accompanying notes to the basic financial statements.

**Department of Health
State of Hawaii**

Balance Sheet – Governmental Funds
June 30, 2023

	General	Deposit Beverage Container Deposit	Coronavirus State Fiscal Recovery Funds – Emergency Medical Service	Other Governmental Funds	Total Governmental Funds
Assets:					
Equity in cash and cash equivalents and investments in State Treasury	\$ 109,680,227	\$ 65,538,708	\$ 11,497,785	\$ 213,959,534	\$ 400,676,254
Due from other State agency	-	-	-	1,946,271	1,946,271
Accrued interest receivable	-	186,761	-	482,390	669,151
Accounts receivable, net of allowance for doubtful accounts of \$2,046,673	-	8,625,968	-	-	8,625,968
Opioid settlement receivable	-	-	-	57,105,488	57,105,488
Due from Federal government	-	-	-	14,179,501	14,179,501
Total assets	\$ 109,680,227	\$ 74,351,437	\$ 11,497,785	\$ 287,673,184	\$ 483,202,633
Liabilities, Deferred Inflows of Resources and Fund Balances					
Liabilities:					
Vouchers and contracts payable	\$ 25,812,884	\$ 4,404,670	\$ 773,385	\$ 18,961,656	\$ 49,952,595
Accrued wages and employee benefits payable	12,306,103	40,375	-	3,365,770	15,712,248
Unearned revenue	-	10,743	10,724,400	16,824,506	27,559,649
Beverage container deposits	-	2,572,405	-	-	2,572,405
Total liabilities	38,118,987	7,028,193	11,497,785	39,151,932	95,796,897
Deferred Inflows of Resources --					
Unavailable Revenues	-	-	-	57,105,488	57,105,488
Fund Balances:					
Restricted:					
Medicaid programs	-	-	-	44,285,806	44,285,806
Trust fund programs	-	-	-	24,471,637	24,471,637
Committed:					
Behavioral health services	-	-	-	8,452,785	8,452,785
Environmental health	-	-	-	36,768,601	36,768,601
General administration	-	-	-	5,218,282	5,218,282
Health resources	-	-	-	64,113,705	64,113,705
Capital projects activities	-	-	-	5,347,243	5,347,243
Tobacco settlement program	-	-	-	2,757,705	2,757,705
Deposit beverage container program	-	67,323,244	-	-	67,323,244
Assigned:					
Behavioral health services	24,461,930	-	-	-	24,461,930
Environmental health	1,434,510	-	-	-	1,434,510
General administration	23,019,599	-	-	-	23,019,599
Health resources	22,645,201	-	-	-	22,645,201
Unassigned	-	-	-	-	-
Total fund balances	71,561,240	67,323,244	-	191,415,764	330,300,248
Total liabilities, deferred inflows of resources and fund balances	\$ 109,680,227	\$ 74,351,437	\$ 11,497,785	\$ 287,673,184	\$ 483,202,633

See accompanying notes to the basic financial statements.

**Department of Health
State of Hawaii**

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2023

Total Fund Balances - Governmental Funds	\$ 330,300,248
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	239,256,253
Compensated absences reported in the statement of net position do not require the use of current financial resources and therefore are not reported as liabilities in the governmental funds	(35,908,182)
Lease liability, subscription liability and accrued interest liability reported in the statement of net position do not require the use of current financial resources and therefore are not reported as liabilities in the governmental funds	(3,693,391)
Workers' compensation liability reported in the statement of net position does not require the use of current financial resources and therefore is not reported as a liability in the governmental funds	(9,576,721)
Tobacco settlement receivables not collected within 60 days and not available for current financial resources are therefore not reported as a receivable in the governmental funds	19,170,196
Due to other state agencies related to tobacco settlement receivables reported in the statement of net position does not require the use of current financial resources and therefore is not reported as a liability in the governmental funds	(19,170,196)
Deferred inflows of resources represents revenues that was earned at fiscal year-end but not available for current financial resources are reported as deferred inflows of resources in the governmental funds.	57,105,488
Other financing sources not collected within 60 days and therefore not available for current financial resources are reported as unearned revenues in the governmental funds	1,939,155
Net Position of Governmental Activities	<u><u>\$ 579,422,850</u></u>

See accompanying notes to the basic financial statements.

**Department of Health
State of Hawaii**

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
For the Fiscal Year Ended June 30, 2023

	General	Deposit Beverage Container Deposit	Coronavirus State Fiscal Recovery Funds – Emergency Medical Service	Other Governmental Funds	Total Governmental Funds
Revenues:					
State-alloted appropriations	\$ 409,550,487	\$ -	\$ -	\$ 7,847,999	\$ 417,398,486
Intergovernmental	-	-	43,170,909	180,586,173	223,757,082
Nonimposed employee fringe benefits	77,504,481	5,389	-	170,817	77,680,687
Taxes, fees, fines and other	-	-	-	65,160,513	65,160,513
Investment income	-	1,294,833	-	3,545,764	4,840,597
Hawaii tobacco settlement	-	-	-	40,512,842	40,512,842
Settlement of opioid claims	-	-	-	12,425,627	12,425,627
Deposit beverage container deposit	-	32,606,621	-	-	32,606,621
Total revenues	<u>487,054,968</u>	<u>33,906,843</u>	<u>43,170,909</u>	<u>310,249,735</u>	<u>874,382,455</u>
Expenditures:					
General administration	30,963,121	-	-	20,428,605	51,391,726
Environmental health	30,541,764	23,662,376	-	19,993,775	74,197,915
Behavioral health services	344,332,346	-	-	43,650,025	387,982,371
Health resources	88,248,609	-	43,170,909	170,721,307	302,140,825
Total expenditures	<u>494,085,840</u>	<u>23,662,376</u>	<u>43,170,909</u>	<u>254,793,712</u>	<u>815,712,837</u>
Excess of revenues (expenditures) over expenditures (revenues)	(7,030,872)	10,244,467	-	55,456,023	58,669,618
Other Financing Sources (Uses):					
Capitalized leases	2,928,182	-	-	-	2,928,182
Capitalized subscription	806,660	-	-	-	806,660
Transfers in	-	-	-	29,092,270	29,092,270
Transfers out	(6,004,433)	-	-	(55,539,918)	(61,544,351)
Total other financing uses	<u>(2,269,591)</u>	<u>-</u>	<u>-</u>	<u>(26,447,648)</u>	<u>(28,717,239)</u>
Net change in fund balances	(9,300,463)	10,244,467	-	29,008,375	29,952,379
Fund Balances at July 1, 2022	<u>80,861,703</u>	<u>57,078,777</u>	<u>-</u>	<u>162,407,389</u>	<u>300,347,869</u>
Fund Balances at June 30, 2023	<u>\$ 71,561,240</u>	<u>\$ 67,323,244</u>	<u>\$ -</u>	<u>\$ 191,415,764</u>	<u>\$ 330,300,248</u>

See accompanying notes to the basic financial statements.

**Department of Health
State of Hawaii**

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

Net Change in Fund Balances - Total Governmental Funds \$ 29,952,379

**Amounts Reported for Governmental Activities in the
Statement of Activities are Different Because:**

Governmental funds report capital outlays as expenditures, however, in the statement of activities, the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Expenditures for capital assets	11,960,036	
Less current year depreciation expense and other adjustments	<u>(15,029,928)</u>	(3,069,892)

Transfers in related to capital assets are not financial resources and, therefore, are not reported in the governmental funds.		3,521,423
--	--	-----------

Initial recognition of lease liability and subscription liability provides current financial resources to governmental funds while the repayment of the principal consumes the current financial resources of governmental funds. Neither transaction has any effect on the net position. This is the amount by which the initial recognition of lease liability and subscription liability exceeds principal payments in the current period.

Initial recognition of lease liability and subscription	(3,734,842)	
Lease and subscription payments	<u>961,990</u>	(2,772,852)

Increase in compensated absences reported in the statement of activities do not require the use of current financial resources and therefore not reported as expenditures in the governmental funds.		(1,435,685)
--	--	-------------

Increase in workers' compensation liability reported in the statement of activities do not require the use of current financial resources and therefore is not reported as expenditures in the governmental funds.		(8,010,338)
--	--	-------------

Revenues reported on the statement of activities that do not provide current financial resources and are reported as deferred inflows of resources unavailable revenue in the governmental funds.		57,105,488
---	--	------------

Other financing sources reported on the statement of activities that do not provide or use current financial resources and are reported as unavailable revenues in the governmental funds, net of prior year transfers recorded in the current period.		<u>(612,297)</u>
--	--	------------------

Change in Net Position - Governmental Activities \$ 74,678,226

See accompanying notes to the basic financial statements.

**Department of Health
State of Hawaii**

General Fund

Statement of Revenues and Expenditures - Budget and Actual

For the Fiscal Year Ended June 30, 2023

	<u>Original</u>	<u>Final</u>	<u>Actual on Budgetary Basis</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues --				
State allotments	\$ 555,627,719	\$ 546,550,982	\$ 441,218,011	\$ (105,332,971)
Expenditures:				
General administration	100,860,744	106,643,971	31,115,979	75,527,992
Environmental health	43,603,420	26,085,024	22,972,976	3,112,048
Behavioral health services	320,132,578	321,731,314	300,244,354	21,486,960
Health resources	91,030,977	92,090,673	86,884,702	5,205,971
	<u>555,627,719</u>	<u>546,550,982</u>	<u>441,218,011</u>	<u>105,332,971</u>
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to the basic financial statements.

**Department of Health
State of Hawaii**

Special Revenue Funds
Statement of Revenues and Expenditures - Budget and Actual
For the Fiscal Year Ended June 30, 2023

	<u>Original</u>	<u>Final</u>	<u>Actual on Budgetary Basis</u>		<u>Variance Favorable (Unfavorable)</u>
			<u>Deposit Beverage Container Deposit</u>	<u>Coronavirus State Fiscal Recovery Funds – Emergency Medical Service</u>	
Revenues --					
Intergovernmental revenues:					
Deposit beverage container deposit	\$ 71,138,955	\$ 71,164,888	\$ 59,910,978	\$ -	\$ (11,253,910)
Coronavirus state fiscal recovery funds – Emergency medical service	46,990,131	46,990,131	-	46,990,131	-
	<u>118,129,086</u>	<u>118,155,019</u>	<u>59,910,978</u>	<u>46,990,131</u>	<u>(11,253,910)</u>
Expenditures:					
Environmental health --					
Deposit beverage container deposit	71,138,955	71,164,888	68,617,862	-	2,547,026
Health resources --					
Coronavirus state fiscal recovery funds – Emergency medical service	46,990,131	46,990,131	-	46,990,131	-
	<u>118,129,086</u>	<u>118,155,019</u>	<u>68,617,862</u>	<u>46,990,131</u>	<u>2,547,026</u>
Deficiency of revenues under expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (8,706,884)</u>	<u>\$ -</u>	<u>\$ (8,706,884)</u>

See accompanying notes to the basic financial statements.

**Department of Health
State of Hawaii**

Statement of Net Position - Proprietary Funds
June 30, 2023

	Business-type Activities - Enterprise Fund		
	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Loan Fund	Total
Assets and Deferred Outflows of Resources:			
Current Assets:			
Equity in cash and cash equivalents and investments in State Treasury	\$ 91,874,132	\$ 35,043,684	\$ 126,917,816
Loan fees receivable	1,140,575	673,998	1,814,573
Accrued interest receivable	410,218	183,125	593,343
Due from Federal Government	-	319,034	319,034
Due from State Treasury	1,615,017	773,867	2,388,884
Current portion of loans receivable	45,900,004	16,102,911	62,002,915
Total current assets	140,939,946	53,096,619	194,036,565
Loans Receivable, net of current portion	469,186,110	221,794,825	690,980,935
Capital Assets, net of accumulated depreciation	68,727	146,983	215,710
Total assets	610,194,783	275,038,427	885,233,210
Deferred Outflows of Resources	942,645	572,255	1,514,900
Total assets and deferred outflows of resources	<u>\$ 611,137,428</u>	<u>\$ 275,610,682</u>	<u>\$ 886,748,110</u>
Liabilities, Deferred Inflows of Resources, and Net Position:			
Current Liabilities--			
Accounts Payable and Other Accrued Liabilities	\$ 311,892	\$ 279,613	\$ 591,505
Accrued Vacation, net of current portion	202,948	125,353	328,301
Net Pension Liability	3,896,880	2,602,794	6,499,674
Net Other Postemployment Benefits Liability	3,097,837	2,402,038	5,499,875
Total liabilities	7,509,557	5,409,798	12,919,355
Deferred Inflows of Resources	695,846	902,415	1,598,261
Net Position:			
Net investment in capital assets	68,727	146,983	215,710
Restricted - expendable	602,863,298	269,151,486	872,014,784
Total net position	602,932,025	269,298,469	872,230,494
Total liabilities, deferred inflows of resources, and net position	<u>\$ 611,137,428</u>	<u>\$ 275,610,682</u>	<u>\$ 886,748,110</u>

See accompanying notes to the basic financial statements.

**Department of Health
State of Hawaii**

Statement of Revenues, Expenses and Changes in Net Position - Proprietary Funds
For the Fiscal Year Ended June 30, 2023

	Business-type Activities-Enterprise Fund		
	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Loan Fund	Total
Operating Revenues:			
Interest income from loans	\$ 1,386,130	\$ 746,375	\$ 2,132,505
Administrative loan fees	4,013,711	2,637,856	6,651,567
Total revenues	<u>5,399,841</u>	<u>3,384,231</u>	<u>8,784,072</u>
Expenses:			
Administrative	3,383,780	1,379,493	4,763,273
State program management	-	901,583	901,583
Water protection	-	410,657	410,657
Principal forgiveness	1,571,481	4,790,263	6,361,744
Total expenses	<u>4,955,261</u>	<u>7,481,996</u>	<u>12,437,257</u>
Operating income (loss)	<u>444,580</u>	<u>(4,097,765)</u>	<u>(3,653,185)</u>
Nonoperating Revenues:			
State contributions	3,852,000	3,996,000	7,848,000
Federal contributions	12,606,700	20,528,328	33,135,028
Other interest income	2,224,081	990,142	3,214,223
Other income	25,729	14,508	40,237
Total nonoperating revenues	<u>18,708,510</u>	<u>25,528,978</u>	<u>44,237,488</u>
Change in net position	<u>19,153,090</u>	<u>21,431,213</u>	<u>40,584,303</u>
Net Position:			
Beginning of year	<u>583,778,935</u>	<u>247,867,256</u>	<u>831,646,191</u>
End of year	<u>\$ 602,932,025</u>	<u>\$ 269,298,469</u>	<u>\$ 872,230,494</u>

See accompanying notes to the basic financial statements.

**Department of Health
State of Hawaii**

Statement of Cash Flows - Proprietary Funds
For the Fiscal Year Ended June 30, 2023

	Business-type Activities - Enterprise Fund		
	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Loan Fund	Total
Cash Flows from Operating Activities:			
Payments to employees	\$ (2,670,402)	\$ (1,536,399)	\$ (4,206,801)
Payments to vendors	(411,722)	(1,288,130)	(1,699,852)
Net cash used in operating activities	<u>(3,082,124)</u>	<u>(2,824,529)</u>	<u>(5,906,653)</u>
Cash Flows from Noncapital Financing Activities:			
State contributions	3,852,000	3,996,000	7,848,000
Federal contributions	12,306,000	20,373,071	32,679,071
Net cash provided by noncapital financing activities	<u>16,158,000</u>	<u>24,369,071</u>	<u>40,527,071</u>
Cash Flows from Investing Activities:			
Principal repayments on loans	44,580,379	14,920,539	59,500,918
Disbursement of loan proceeds	(60,146,798)	(30,103,013)	(90,249,811)
Interest income from loans	1,366,813	745,437	2,112,250
Administrative loan fees	3,844,899	2,621,771	6,466,670
Other interest income	1,672,657	581,188	2,253,845
Net cash used in investing activities	<u>(8,682,050)</u>	<u>(11,234,078)</u>	<u>(19,916,128)</u>
Net increase in cash	4,393,826	10,310,464	14,704,290
Equity in Cash and Cash Equivalents and Investments in State Treasury:			
Beginning of year	87,480,306	24,733,220	112,213,526
End of year	<u>\$ 91,874,132</u>	<u>\$ 35,043,684</u>	<u>\$ 126,917,816</u>
Reconciliation of Operating Income (Loss) to Net Cash Used in Operating Activities:			
Operating income (loss)	\$ 444,580	\$ (4,097,765)	\$ (3,653,185)
Adjustments to reconcile operating income (loss) to net cash used in operating activities:			
Depreciation expense	143,566	179,896	323,462
Principal forgiveness	1,571,481	4,790,263	6,361,744
Interest income from loans	(1,386,130)	(746,375)	(2,132,505)
Administrative loan fees	(4,013,711)	(2,637,856)	(6,651,567)
In-kind contribution from Environmental Protection Agency	300,700	-	300,700
Non-imposed fringe benefits	25,728	14,507	40,235
Change in assets, deferred outflows, liabilities, and deferred inflows:			
Due from State Treasury	9,381	(30,582)	(21,201)
Accounts payable and other accrued liabilities	(34,736)	(249,409)	(284,145)
Net deferred outflows/inflows of resources	(194,872)	(130,922)	(325,794)
Net pension liability	314,020	239,074	553,094
Net other postemployment benefits liability	(262,131)	(155,360)	(417,491)
Net cash used in operating activities	<u>\$ (3,082,124)</u>	<u>\$ (2,824,529)</u>	<u>\$ (5,906,653)</u>

See accompanying notes to the basic financial statements.

Department of Health
State of Hawaii

Statement of Fiduciary Net Position - Private-Purpose Trust Fund
June 30, 2023

	Opioid Settlement Fund
Assets:	
Equity in cash and cash equivalents and investments in State treasury	\$ 2,192,758
Opioid settlement receivable	<u>10,077,439</u>
Total assets	<u><u>\$ 12,270,197</u></u>
 Liabilities and Net Position	
Liabilities --	
Benefits Payable to Other Governments	<u>1,348,383</u>
 Net Position --	
Held in Trust for Other Governments	<u>10,921,814</u>
Total liabilities and net position	<u><u>\$ 12,270,197</u></u>

See accompanying notes to the basic financial statements.

Department of Health
State of Hawaii

Statement of Changes in Fiduciary Net Position - Private-Purpose Trust Fund
For the Fiscal Year Ended June 30, 2023

	<u>Opioid Settlement Fund</u>
Additions --	
Settlement of Opioid Claims	\$ 12,270,197
Deductions --	
Intergovernmental Payments	<u>1,348,383</u>
Net changes in net position	<u>10,921,814</u>
Net Position at July 1, 2022	<u>-</u>
Net Position at June 30, 2023	<u><u>\$ 10,921,814</u></u>

See accompanying notes to the basic financial statements.

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2023

1. Organization and Summary of Significant Accounting Policies

a. Financial Reporting Entity

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

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

The Department is part of the executive branch of the State of Hawaii (State). The financial statements of the Department are intended to present the financial position and the changes in financial position and cash flows, where applicable, of only that portion of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State as of June 30, 2023, and the changes in its financial position and cash flows, and budgetary comparisons, where applicable, for the year then ended in conformity with GAAP. The State Comptroller maintains the central accounts for all State funds and publishes the State's Annual Comprehensive Financial Report (ACFR), which includes the Department's financial activities.

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

On July 7, 2021, Act 212, SLH 2021, was passed to commence the transfer of Oahu Regional Health Care System in its entirety from HHSC to the Department. Act 212 requires the transfer to be completed no later than December 31, 2022. On June 27, 2022, Act 150, SLH 2022 was passed, which extended the transfer date to December 31, 2025. There was no impact to the net position of the Department at June 30, 2023.

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2023

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

b. Government-wide Financial Statements

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

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

c. Fund Financial Statements

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Department considers revenues other than federal grants and assistance awards to be available if they are collected within 60 days of the end of the current fiscal year-end.

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

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2023

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

c. Fund Financial Statements (continued)

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

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

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

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

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

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

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

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2023

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

c. Fund Financial Statements (continued)

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

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

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

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

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

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

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

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2023

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

c. Fund Financial Statements (continued)

Proprietary Funds (Business-Type Activities)

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

Fiduciary Funds

Private-Purpose Trust Funds – Private-purpose trust funds are used to account for assets administered by the Department through a trust agreement or equivalent arrangement.

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

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

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

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

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2023

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

e. Due from Other State Agency

Receivables due from other State agency consist of reimbursements from the Department of Human Services (DHS) for Medicaid payments that the Department makes to providers of health services. The Department is responsible to pay the State portion of the Medicaid claims, and DHS reimburses the Department for the Federal portion of the claims. The receivable of approximately \$1,946,000 is comprised of various Medicaid rehabilitation option claims.

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

f. Tobacco Settlement

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

The Department recognized approximately \$40.5 million in tobacco settlement revenues during the year ended June 30, 2023. In accordance with GASB Technical Bulletin No. 2004-1, *Tobacco Settlement Recognition and Financial Reporting Entity Issues*, the Department has recorded a tobacco settlement receivable for \$19.2 million in the statement of net position representing tobacco settlements earned for the period January 1, 2023 through June 30, 2023.

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2023

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

g. Opioid Settlement

The State and its political subdivisions (the Counties) are currently participating in national opioid settlements against pharmaceutical distributors and manufacturers related to their role in the opioid epidemic. As part of the opioid settlement agreement, a portion of the funds received must be used to support any of a wide variety of strategies to fight the opioid crisis. The State also entered into a Memorandum of Agreement (MOA) with the Counties which allocates the settlement funds between the State and the Counties, establishes an advisory council to provide guidance on how the State's portion should be utilized and instructs how the Counties' funds are to be utilized. As there are cases ongoing, future opioid litigation may result in additional agreements or judgments, or suspension and reduction of payments, and each agreement or judgment may have unique terms governing payment timing and duration.

On October 21, 2022, the State entered into three settlement agreements in which the State and counties will receive approximately \$81.8 million, with approximately \$69.5 million allocated to the State, to be paid over 18 years. For the year ended June 30, 2023, the Department recorded settlement opioid claim revenue of \$69.5 million on the statement of activities in which the Department received approximately \$12.4 million. At June 30, 2023, the Department has recorded an opioid settlement receivable of \$57.1 million, in the statement of net position.

The Department acts in a trustee or agent capacity for funds held for the Counties. The funds held for the Counties are recorded in the Opioid Settlement Fund, a fiduciary fund, and is reported outside the government-wide financial statements. For the year ended June 30, 2023, the Opioid Settlement Fund recorded approximately \$12.3 million for the settlement of opioid settlement in the statement of changes in fiduciary net position. As of June 30, 2023, the Opioid Settlement Fund has recorded an opioid settlement receivable of approximately \$10.1 million and benefits payable to other governments of approximately \$1.3 million in the statement of fiduciary net position.

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2023

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

h. Loans Receivable

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

i. Administrative Loan Fees

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

j. Capital Assets

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

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

**Department of Health
State of Hawaii**

Notes to Basic Financial Statements
June 30, 2023

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

j. Capital Assets (continued)

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

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

k. Unearned Revenue

Unearned revenues at the government-wide level and fund level arise when the Department receives resources before it has a legal claim to them. In subsequent periods, when the revenue recognition criteria is met, or when the Department has a legal claim to the resources, the liability for unearned revenue is removed from the statement of net position and balance sheet, and revenue is recognized. Unearned revenues at June 30, 2023 consisted primarily of Federal grant funds for which all requirements had not yet been met.

l. Due to Other State Agencies

Payables to other State agencies consists of funds allocated to other State agencies in accordance with the HTSSF amounted to \$19.2 million as of June 30, 2023.

**Department of Health
State of Hawaii**

Notes to Basic Financial Statements
June 30, 2023

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

m. Beverage Container Deposits and Container Fees

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

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

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

n. Deferred Outflows and Inflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until that time. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. The following is a breakdown of deferred outflows of resources and deferred inflows of resources as of June 30, 2023:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u> </u>	<u> </u>
Related to Pensions	\$ 997,349	\$ (591,560)
Related to Other Postemployment Benefits	517,551	(1,006,701)
	<u>\$ 1,514,900</u>	<u>\$ (1,598,261)</u>

Department of Health

State of Hawaii

Notes to Basic Financial Statements
June 30, 2023

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

o. Accrued Vacation

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

p. Accumulated Sick Leave

Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limit, but may be taken only in the event of illness and is not convertible to pay upon termination of employment. However, a State employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the State's Employees' Retirement System (ERS). At June 30, 2023, accumulated sick leave was approximately \$83.7 million.

q. Intrafund and Interfund Transactions

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

r. Use of Estimates

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

Department of Health

State of Hawaii

Notes to Basic Financial Statements
June 30, 2023

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

s. Leases

The Department has a policy to recognize a lease liability and a right-to-use lease asset (lease asset) in the governmentwide financial statements. The Department recognizes lease liabilities with an initial, individual value of \$100,000 or more for land and building and \$25,000 or more 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. 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 the State's estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable 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 Department 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.

Department of Health

State of Hawaii

Notes to Basic Financial Statements
June 30, 2023

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

t. Subscription Based Information Technology Arrangements (SBITA)

The Department has a policy to recognize a subscription liability and a right-to-use subscription asset (subscription asset) in the government-wide financial statements and its proprietary fund financial statements. The Department recognizes subscription liabilities with an initial, individual value of \$500,000 or more with a subscription term greater than one year. Variable payments based on future performance of the Department or, usage of the underlying information technology (IT) asset, or number of user seats are not included in the measurement of the subscription liability, rather, those variable payments are recognized as outflows of resources (expenses) in the period the obligation for those payments is incurred.

At the commencement of a SBITA, the Department initially measures the subscription liability at the present value of payments expected to be made during the subscription term. Subsequently, the subscription liability is reduced by the principal portion of subscription payments made. Subscription assets are recorded at the amount of the initial measurement of the subscription liabilities, plus any payments made to the SBITA vendor before the commencement of the subscription term and capitalizable initial implementation cost, less any incentives received from the SBITA vendor at or before the commencement of the subscription term.

Costs associated with a SBITA, other than the subscription payments, are accounted for as follows:

- **Preliminary Project Stage:** Outlays are expensed as incurred.
- **Initial Implementation Stage:** Outlays are capitalized as an addition to the subscription asset.
- **Operation and Additional Implementation Stage:** Outlays are expensed as incurred unless they meet specific capitalization criteria.

Department of Health

State of Hawaii

Notes to Basic Financial Statements
June 30, 2023

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

t. Subscription Based Information Technology Arrangements (SBITA) (continued)

Upon adoption, the Department elected to exclude the capitalizable outlays associated with the initial implementation stage and the operation and additional implementation stage that were incurred prior to the implementation of this Statement in the measurement of subscription assets as of July 1, 2022. Subscription assets are reported in capital assets and subscription liabilities are reported with long-term liabilities on the statement of net position. Subscription assets are amortized using the straight-line method over the shorter of the subscription term or the useful life of the underlying IT asset, unless the subscription contains a purchase option that the Department has determined is reasonably certain of being exercised. In this case, the subscription asset is amortized over the useful life of the underlying IT asset.

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

- The Department uses the interest rate charged by the SBITA vendor as the discount rate. When the interest rate charged by the SBITA vendor is not provided, the Department generally uses its estimated incremental borrowing rate as the discount rate for SBITA.
- The subscription term includes the noncancellable period of the SBITA. Subscription payments included in the measurement of the subscription liability are composed of fixed payments and purchase option price that the Department is reasonably certain to exercise.
- The Department monitors changes in circumstances that would require a remeasurement of its subscription liability.

u. Encumbrances

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

Department of Health

State of Hawaii

Notes to Basic Financial Statements
June 30, 2023

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

v. Use of Restricted and Unrestricted Net Position

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

w. Nonmonetary Transactions

The Department receives noncash awards for one of its federally funded programs. The Department expended approximately \$15.3 million in vaccines during the fiscal year ended June 30, 2023 and recorded intergovernmental revenues for other governmental funds of the same amount in the accompanying basic financial statements.

x. Administrative Costs

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

y. Pensions

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

z. Other Postemployment Benefits (OPEB)

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

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2023

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

aa. Recently Adopted Accounting Pronouncement

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for SBITAs for government end users (governments). 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 note disclosures regarding a SBITA. Implementation of this Statement had a significant effect on the Department’s financial statements for the year ended June 30, 2023.

Upon implementation of this Statement, the Department recognized subscription liabilities and subscription assets. There was no net effect on net position previously reported as of July 1, 2022.

ab. New Accounting Pronouncements

In April 2022, 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 are effective immediately while other requirements are effective for fiscal years beginning after June 15, 2023, respectively. The requirements that were effective immediately and beginning after June 15, 2022 did not have a material effect on the Department’s financial statements. For the remaining requirements, the Department has not determined the effect this Statement will have on its financial statements.

Department of Health

State of Hawaii

Notes to Basic Financial Statements
June 30, 2023

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

ab. New Accounting Pronouncements (continued)

In June 2022, GASB issued Statement No. 100, *Accounting Changes and Error Corrections—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 yet determined the effect this Statement will have on its financial statements.

In June 2022, 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 yet determined the effect this Statement will have on its financial statements.

2. Budgeting and Budgetary Control

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

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

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

**Department of Health
State of Hawaii**

Notes to Basic Financial Statements
June 30, 2023

2. Budgeting and Budgetary Control (continued)

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

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

Since budgetary basis differs from GAAP, budget and actual amounts in the budgetary comparison statements are presented on the budgetary basis. A reconciliation of revenues over expenditures (expenditures over revenues) on a budgetary basis at June 30, 2023, to excess of revenues over expenditures presented in conformity with GAAP follows:

	General	Deposit Beverage Container Deposit	Coronavirus State Fiscal Recovery Funds - Emergency Medical Service
	<u> </u>	<u> </u>	<u> </u>
Excess of revenues (under) expenditures and other sources (uses) - actual on a budgetary basis	\$ -	\$ (8,706,884)	\$ -
Current year's appropriations encumbered at June 30, 2023	71,561,241	33,635,896	10,791,257
Expenditures for liquidation of prior fiscal year encumbrances	(218,351,947)	(20,953,744)	(50,326,404)
Accruals and other adjustments	143,494,676	6,269,199	39,535,147
Transfers	<u>(6,004,433)</u>	<u>-</u>	<u>-</u>
Net change in fund balances - GAAP basis	<u>\$ (9,300,463)</u>	<u>\$ 10,244,467</u>	<u>\$ -</u>

**Department of Health
State of Hawaii**

Notes to Basic Financial Statements
June 30, 2023

3. Loans Receivable

At June 30, 2023, the proprietary funds loans receivable consisted of loans to county governmental units for the water pollution control and drinking water treatment programs. The loans require annual, semi-annual or quarterly payments, including interest at 0.00% to 2.13%, commencing not later than one year after project completion, notice to proceed, final loan disbursement, or three years after loan agreement date. Final payment is due not later than twenty years after project completion. During the year ended June 30, 2023, approximately \$2.9 million in loans was forgiven. All loans and advances forgiven were in accordance with required conditions. Accrued interest receivable on the loans amounted to approximately \$593,000 at June 30, 2023.

The following is a schedule of principal payments due on loans for projects completed or in progress as of June 30, 2023:

<u>Year ending June 30,</u>	
2024	\$ 62,002,915
2025	62,385,364
2026	62,694,009
2027	59,933,295
2028	51,525,695
2029-2033	227,519,884
2034-2038	163,423,879
2039-2042	<u>63,498,809</u>
	<u><u>\$ 752,983,850</u></u>

As of June 30, 2023, the Department’s proprietary funds were committed under existing loan agreements to the following counties:

	<u>Water Pollution Control Revolving Fund</u>	<u>Drinking Water Treatment Revolving Loan Fund</u>	<u>Total</u>
County of Hawaii	\$ 13,538,804	\$ -	13,538,804
County of Kauai	3,716,990	-	3,716,990
Private Water Systems	-	625,599	625,599
	<u>\$ 17,255,794</u>	<u>\$ 625,599</u>	<u>\$ 17,881,393</u>

Department of Health

State of Hawaii

Notes to Basic Financial Statements
June 30, 2023

4. Capital Assets

Capital asset activity for governmental and business-type activities for the year ended June 30, 2023 was as follows:

	<u>Balance July 1, 2022</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2023</u>
Governmental Type Activities:				
Depreciable Assets:				
Land improvements	\$ 3,304,766	\$ 3,521,423	\$ -	\$ 6,826,189
Building and improvements	381,370,001	5,681,383	(346,761)	386,704,623
Furniture and equipment	32,905,004	2,543,810	(2,549,538)	32,899,276
Total depreciable assets	<u>417,579,771</u>	<u>11,746,616</u>	<u>(2,896,299)</u>	<u>426,430,088</u>
Less Accumulated Depreciation:				
Land improvements	(2,885,163)	(330,885)	-	(3,216,048)
Building and improvements	(151,339,405)	(10,566,576)	171,979	(161,734,002)
Furniture and equipment	(26,480,824)	(2,489,190)	2,079,394	(26,890,620)
Total accumulated depreciation	<u>(180,705,392)</u>	<u>(13,386,651)</u>	<u>2,251,373</u>	<u>(191,840,670)</u>
Non-Depreciable Assets:				
Land	1,018,080	-	-	1,018,080
Amortizable Right-To-Use Assets:				
Building	1,097,354	2,857,552	-	3,954,906
Equipment	28,559	70,630	-	99,189
Subscription	-	806,660	-	806,660
Total amortizable right-to-use assets	<u>1,125,913</u>	<u>3,734,842</u>	<u>-</u>	<u>4,860,755</u>
Less Accumulated Amortization:				
Building	(203,244)	(442,902)	-	(646,146)
Equipment	(10,405)	(17,675)	-	(28,080)
Subscription	-	(537,774)	-	(537,774)
Total accumulated amortization	<u>(213,649)</u>	<u>(998,351)</u>	<u>-</u>	<u>(1,212,000)</u>
Governmental activities capital assets, net	<u>\$ 238,804,723</u>	<u>\$ 1,096,456</u>	<u>\$ (644,926)</u>	<u>\$ 239,256,253</u>
Business Type Activities				
Depreciable Assets:				
Furniture and equipment	\$ 3,566,956	\$ -	\$ 2,784	\$ 3,569,740
Less Accumulated Depreciation:				
Furniture and equipment	(3,027,784)	(323,462)	(2,784)	(3,354,030)
Business activities capital assets, net	<u>\$ 539,172</u>	<u>\$ (323,462)</u>	<u>\$ -</u>	<u>\$ 215,710</u>
Total Department capital assets, net	<u>\$ 239,343,895</u>	<u>\$ 772,994</u>	<u>\$ (644,926)</u>	<u>\$ 239,471,963</u>

**Department of Health
State of Hawaii**

Notes to Basic Financial Statements
June 30, 2023

4. Capital Assets (continued)

Current period depreciation and amortization expense was charged to functions as follows:

	Governmental Activities	Business-Type Activities	Total
General administration	\$ 3,077,854	\$ -	\$ 3,077,854
Environmental health	1,242,793	323,462	1,566,255
Behavioral health	6,478,550	-	6,478,550
Health resources	3,585,805	-	3,585,805
Total	<u>\$ 14,385,002</u>	<u>\$ 323,462</u>	<u>\$ 14,708,464</u>

5. Accrued Vacation

The changes to the accrued vacation liability during the year ended June 30, 2023 were as follows:

	Governmental Activities	Business-Type Activities	Total
Balance at July 1, 2022	\$ 34,472,497	\$ 577,698	\$ 35,050,195
Increase	14,625,852	229,907	14,855,759
Decrease	<u>(13,190,167)</u>	<u>(309,934)</u>	<u>(13,500,101)</u>
Balance at June 30, 2023	35,908,182	497,671	36,405,853
Less: Current Portion	<u>10,990,743</u>	<u>169,370</u>	<u>11,160,113</u>
Noncurrent Portion	<u>\$ 24,917,439</u>	<u>\$ 328,301</u>	<u>\$ 25,245,740</u>

6. Beverage Container Deposits

The changes to the beverage container deposit liability during the year ended June 30, 2023 were as follows:

Balance as of July 1, 2022	\$ 1,953,582
Increase: Deposits received from distributors	51,214,604
Decrease: Payments made to recycling centers, net of refunds	(28,197,470)
Decrease: Unredeemed deposits recognized as revenue	<u>(22,398,311)</u>
Balance as of June 30, 2023	<u>\$ 2,572,405</u>

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2023

7. Non-imposed Employee Fringe Benefits

Non-imposed employee fringe benefits related to general and State special fund salaries are funded by the State. These costs, totaling approximately \$77.7 million for the fiscal year ended June 30, 2023, have been reported as revenues and expenditures of the Department's general and State special revenue funds.

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

8. Employee Benefit Plans

a. Employees' Retirement System

i. Plan Description

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

ii. Benefits Provided

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

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2023

8. Employee Benefit Plans (continued)

a. Employees' Retirement System (continued)

ii. Benefits Provided (continued)

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

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

Noncontributory Class

Retirement Benefits - General employees' retirement benefits are determined as 1.25% of average final compensation multiplied by the years of credited service. Employees with ten years of credited service are eligible to retire at age 62. Employees with 30 years of credited service are eligible to retire at age 55.

Disability Benefits - Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 12.5% of average final compensation.

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

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2023

8. Employee Benefit Plans (continued)

a. Employees' Retirement System (continued)

ii. Benefits Provided (continued)

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

Contributory Plan for Employees Hired Prior to July 1, 2012

Retirement Benefits - General employees' retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with five years of credited service are eligible to retire at age 55.

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

Disability Benefits - Members are eligible for service-related disability benefits regardless of length of service and receive a one-time payment of the member's contributions and accrued interest plus a lifetime pension of 50% of their average final compensation. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined as 1.75% of average final compensation multiplied by the years of credited service but are payable immediately, without an actuarial reduction, and at a minimum of 30% of average final compensation.

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2023

8. Employee Benefit Plans (continued)

a. Employees' Retirement System (continued)

ii. Benefits Provided (continued)

Death Benefits - For service-connected deaths, the surviving spouse/reciprocal beneficiary receives a lump sum payment of the member's contributions and accrued interest plus a monthly benefit of 50% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse/reciprocal beneficiary, surviving dependent children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse/reciprocal beneficiary or surviving dependent children/parents, the ordinary death benefit is payable to the designated beneficiary.

Ordinary death benefits are available to employees who were active at time of death with at least one year of service. Ordinary death benefits consist of a lump-sum payment of the member's contributions and accrued interest plus a percentage of the salary earned in the 12 months preceding death, or 50% Joint and Survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least ten years of service and designated one beneficiary, or 100% Joint and Survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

Contributory Plan for Employees Hired After June 30, 2012

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

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

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2023

8. Employee Benefit Plans (continued)

a. Employees' Retirement System (continued)

ii. Benefits Provided (continued)

Disability and Death Benefits - Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 50% of their average final compensation plus refund of contributions and accrued interest. Ten years of credited service is required for ordinary disability.

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

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

Hybrid Plan for Employees Hired Prior to July 1, 2012

Retirement Benefits - General employees' retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with five years of credited service are eligible to retire at age 62. General employees with 30 years of credited service are eligible to retire at age 55.

Disability Benefits - Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation plus refund of their contributions and accrued interest. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 25% of average final compensation.

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2023

8. Employee Benefit Plans (continued)

a. Employees' Retirement System (continued)

ii. Benefits Provided (continued)

Death Benefits - For service-connected deaths, the designated surviving spouse/reciprocal beneficiary receives a lump sum payment of the member's contributions and accrued interest plus a monthly benefit of 50% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse/reciprocal beneficiary, surviving dependent children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse/reciprocal beneficiary or surviving dependent children/parents, the ordinary death benefit is payable to the designated beneficiary.

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

Hybrid Plan for Employees Hired After June 30, 2012

Retirement Benefits - General employees' retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with ten years of credited service are eligible to retire at age 65. Employees with 30 years of credited service are eligible to retire at age 60. Sewer workers, water safety officers, and emergency medical technicians may retire with 25 years of credited service at age 55.

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2023

8. Employee Benefit Plans (continued)

a. Employees' Retirement System (continued)

ii. Benefits Provided (continued)

Disability and Death Benefits - Provisions for disability and death benefits generally remain the same except for ordinary death benefits. Ordinary death benefits are available to employees who were active at time of death with at least ten years of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest, or 50% Joint and Survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least ten years of service and designated one beneficiary, or 100% Joint and Survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

iii. Contributions

Contributions are governed by HRS Chapter 88 and may be amended through legislation. The employer rate is set by statute based on the recommendations of the ERS actuary resulting from an experience study conducted every five years. Since July 1, 2005, the employer contribution rate is a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liabilities. The contribution rates for fiscal year 2023 were 41% for police officers and firefighters and 24% for all other employees. Contributions to the pension plan from the Department were \$640,430 for the fiscal year ended June 30, 2023.

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

Department of Health

State of Hawaii

Notes to Basic Financial Statements
June 30, 2023

8. Employee Benefit Plans (continued)

a. Employees' Retirement System (continued)

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

At June 30, 2023, the Department reported a liability of \$6,499,674 for its proportionate share of net pension liability of the State. The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The State's proportion of the net pension liability was based on a projection of the State's long-term share of contributions to the pension plan relative to projected contributions of all participants, actuarially determined. The Department's proportion of the net pension liability was based on an allocation of the State's net pension liability based on the proportionate share of qualified payroll. At June 30, 2022, the Department's proportion of the State share was 0.10%, which increased by 0.02% from its proportion measured as of June 30, 2021.

The following changes were made to the actuarial assumptions as of June 30, 2021 to June 30, 2022:

- The administrative expenses assumption was increased from 0.35% to 0.40%.
- The general wage inflation assumption represents the average increase in wages in the general economy and is used to index salaries for each cohort of new entrants in projections. The general productivity component of the general wage inflation assumption for general employees and teachers decreased from 1.00% to 0.50%, that now yields a nominal assumption of 3.00%. There was no change to the assumption for police officers and firefighters.
- The assumed salary increase schedules increased for all employees. These schedules include an ultimate component for general wage inflation that may add on additional increases for individual merit (which would include promotions) and then an additional component for step rates based on service. The schedules of assumed salary increase, that are the same, for General Employees and Teachers increased to 4.66%, from 4.41% for General Employees and from 4.37% for Teachers; while Police and Firefighters Employees schedules increased to 5.78% from 5.57%.

**Department of Health
State of Hawaii**

Notes to Basic Financial Statements
June 30, 2023

8. Employee Benefit Plans (continued)

a. Employees' Retirement System (continued)

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

- Pre-retirement mortality rates increased for police and firefighters.
- Retiree mortality was updated to the 2022 Public Retirees of Hawaii mortality tables. The rates are projected on a fully generational basis by the long-term rates of scale UMP from the year 2022 and with multiplier and setbacks based on plan and group experience.

For the year ended June 30, 2023, the Department recognized pension expense of \$558,520. At June 30, 2023, the Department reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 48,129	\$ (34,292)
Changes in assumptions	92,839	(93,267)
Net difference between projected and actual earnings on pension plan investments	144,130	(450,725)
Changes in proportion and difference between Department contributions and proportionate share of contributions	71,821	(13,276)
Department contributions subsequent to the measurement date	640,430	-
	<u>\$ 997,349</u>	<u>\$ (591,560)</u>

**Department of Health
State of Hawaii**

Notes to Basic Financial Statements
June 30, 2023

8. Employee Benefit Plans (continued)

a. Employees' Retirement System (continued)

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

The \$640,430 reported as deferred outflows of resources related to pensions resulting from Department contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal year ending June 30,</u>	
2024	\$ (19,848)
2025	(95,386)
2026	(92,513)
2027	(130,022)
2028	103,128
	<u>\$ (234,641)</u>

v. Actuarial Assumptions

The total pension liability in the June 30, 2023 actuarial valuation was determined using the following actuarial assumptions adopted by the Board of Trustees of the Employees' Retirement System of the State of Hawaii on August 8, 2022, based on the 2021 Experience Study for the five-year period from July 1, 2016 through June 30, 2021:

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

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

Post-retirement mortality rates are based on the 2022 Public Retirees of Hawaii mortality table with full generational projections in future years. Pre-retirement mortality rates are based on multiples of the Pub-2010 mortality table based on the occupation of the member.

**Department of Health
State of Hawaii**

Notes to Basic Financial Statements
June 30, 2023

8. Employee Benefit Plans (continued)

a. Employees' Retirement System (continued)

v. Actuarial Assumptions (continued)

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

Classes	Strategic Class Weights	Long-Term Expected Geometric Rate of Return
Broad growth		
Private equity	13.50%	11.00%
Global equity	20.00%	8.50%
Low volatility equity	4.00%	7.80%
Global options	4.00%	6.40%
Credit	6.00%	7.70%
Core real estate	6.00%	6.40%
Non-core real estate	4.50%	9.50%
Timber/agriculture/infrastructure	5.00%	8.30%
Diversifying strategies		
TIPS	2.00%	3.30%
Global macro	4.00%	5.40%
Reinsurance	4.00%	6.40%
Alternative risk premia	8.00%	5.40%
Long Treasuries	5.00%	3.80%
Intermediate government	4.00%	3.20%
Systematic trend following	10.00%	6.20%
	100.0%	

**Department of Health
State of Hawaii**

Notes to Basic Financial Statements
June 30, 2023

8. Employee Benefit Plans (continued)

a. Employees' Retirement System (continued)

v. Actuarial Assumptions (continued)

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

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

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Department's proportionate share of the net pension liability	<u>\$ 8,716,270</u>	<u>\$ 6,499,674</u>	<u>\$ 4,664,755</u>

Department of Health

State of Hawaii

Notes to Basic Financial Statements
June 30, 2023

8. Employee Benefit Plans (continued)

a. Employees' Retirement System (continued)

vi. Pension Plan Fiduciary Net Position

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

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

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

vii. Payables to the Pension Plan

At June 30, 2023, there was no payable to the ERS.

b. Deferred Compensation Plan

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

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

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2023

8. Employee Benefit Plans (continued)

c. Post-Employment Healthcare and Life Insurance Benefits

i. Plan Description

The State provides certain health care and life insurance benefits to all qualified employees. Pursuant to Act 88, SLH 2001, the state contributes to the EUTF, an agent multiple employer defined benefit plan that replaced Hawaii Public Employees Health Fund effective July 1, 2003. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees, and their dependents. The EUTF issues an annual financial report that is available to the public at <https://eutf.hawaii.gov/reports>. The report may also be obtained by writing to the EUTF at P.O. Box 2121 Honolulu, HI, 96805-2121.

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

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

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

Department of Health

State of Hawaii

Notes to Basic Financial Statements
June 30, 2023

8. Employee Benefit Plans (continued)

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

i. Plan Description (continued)

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

ii. Contributions

Contributions are governed by HRS Chapter 87A and may be amended through legislation. Contributions to the OPEB plan from the Department was \$298,131 for the fiscal year ended June 30, 2023. The employer is required to make all contributions for members.

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

At June 30, 2023, the Department reported a liability of \$5,499,875 for its proportionate share of net OPEB liability of the State. The net OPEB liability was measured as of July 1, 2022, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The State's proportion of the net OPEB liability was based on a projection of the State's long-term share of contributions to the EUTF relative to projected contributions of all participants, actuarially determined. The Department's proportion of the net OPEB liability was based on an allocation of the State's net OPEB liability based on the proportionate share of qualified payroll. At June 30, 2022, the Department's proportion of the State's share was 0.05%, which increased by 0.03% from its proportion measured as of June 30, 2021.

There were no changes in assumptions between the measurement date, July 1, 2022, and the reporting date, June 30, 2023, that are expected to have a significant effect on the proportionate share of the net OPEB liability.

**Department of Health
State of Hawaii**

Notes to Basic Financial Statements
June 30, 2023

8. Employee Benefit Plans (continued)

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

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

For the year ended June 30, 2023, the Department recognized OPEB expense of \$189,852. At June 30, 2023, the Department reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ (857,877)
Changes in assumptions	42,948	(148,824)
Net difference between projected and actual earnings on investments	176,472	-
Department contributions subsequent to the measurement date	298,131	-
	<u>\$ 517,551</u>	<u>\$ (1,006,701)</u>

The \$298,131 reported as deferred outflows of resources related to OPEB resulting from Department contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the fiscal year ended June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Fiscal year ending June 30,</u>	
2024	\$ (195,327)
2025	(186,261)
2026	(196,189)
2027	(123,108)
2028	(86,396)
	<u>\$ (787,281)</u>

**Department of Health
State of Hawaii**

Notes to Basic Financial Statements
June 30, 2023

8. Employee Benefit Plans (continued)

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

iv. Actuarial Assumptions

The total OPEB liability in the July 1, 2022 actuarial valuation was determined using the following actuarial methods and assumptions adopted by the EUTF’s Board of Trustees on January 9, 2023, based on the experience study covering the five-year period June 30, 2022 as conducted for the ERS:

Inflation	2.50%
Salary increases	3.75% to 6.75% including inflation
Investment rate of return	7.00%
Healthcare cost trend rates:	
PPO*	Initial rate of 6.40% declining to a rate of 4.25% after 22 years.
HMO*	Initial rate of 6.40% declining to a rate of 4.25% after 22 years.
Contribution	Initial rate of 5.00% declining to a rate of 4.25% after 22 years.
Dental	4.00%
Vision	2.50%
Life insurance	0.00%

*Blended rates for medical and prescription drug

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

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

**Department of Health
State of Hawaii**

Notes to Basic Financial Statements
June 30, 2023

8. Employee Benefit Plans (continued)

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

iv. Actuarial Assumptions (continued)

Asset Class	Target Allocation	Long-term Expected Rate of Return
Private equity	12.50%	11.72%
U.S. microcap	6.00%	8.28%
Global equity	27.50%	6.62%
Global options	5.00%	4.45%
Real assets	10.00%	6.59%
Private credit	8.00%	6.38%
TIPS	5.00%	1.35%
Long treasuries	6.00%	2.32%
Alternative risk premia	5.00%	3.74%
Trend following	10.00%	4.53%
Reinsurance	5.00%	4.81%
	100.00%	

v. Single Discount Rate

The discount rate used to measure the net OPEB liability was 7.00%, based on the expected rate of return on OPEB plan investments of 7.00%. Beginning with the fiscal year 2019 contribution, the State's funding policy is to pay the recommended actuarially determined contribution, which is based on layered, closed amortization periods. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive plan members. In July 2020, the Governor's office issued the Tenth Proclamation related to the COVID-19 Emergency, allowing employers of the EUTF to suspend Act 268 contributions for the fiscal year ended June 30, 2021 and instead limit their contribution amounts to the OPEB benefits due.

**Department of Health
State of Hawaii**

Notes to Basic Financial Statements
June 30, 2023

8. Employee Benefit Plans (continued)

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

v. Single Discount Rate (continued)

This relief provision related to OPEB funding was extended to fiscal years 2022 and 2023 by ACT 229, SLH 2021. The OPEB plan's fiduciary net position is still expected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

vi. Changes in Net OPEB Liability

The following table represents a schedule of changes in the net OPEB liability. The ending balances are as of the measurement date, July 1, 2022.

	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Beginning balance	\$ 7,805,539	\$ 1,888,173	\$ 5,917,366
Service cost	129,573	-	129,573
Interest on the total OPEB liability	432,894	-	432,894
Changes of benefit terms	-	-	-
Difference between expected and actual experience	(585,687)	-	(585,687)
Changes of assumptions	(149,284)	-	(149,284)
Employer contributions	-	286,009	(286,009)
Net investment income	-	(41,408)	41,408
Benefit payments	(199,574)	(199,574)	-
Administrative expense	-	(172)	172
Other	-	558	(558)
Net changes	(372,078)	45,413	(417,491)
Ending balance	\$ 7,433,461	\$ 1,933,586	\$ 5,499,875

**Department of Health
State of Hawaii**

Notes to Basic Financial Statements
June 30, 2023

8. Employee Benefit Plans (continued)

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

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

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

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Department's proportionate share of the net OPEB liability	<u>\$ 6,811,310</u>	<u>\$ 5,499,875</u>	<u>\$ 4,457,555</u>

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

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

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
Department's proportionate share of the net OPEB liability	<u>\$ 4,400,919</u>	<u>\$ 5,499,875</u>	<u>\$ 6,905,019</u>

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2023

8. Employee Benefit Plans (continued)

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

ix. OPEB Plan Fiduciary Net Position

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

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

x. Payables to the OPEB Plan

At June 30, 2023, there was no payable to the EUTF.

xi. Required Supplementary Information and Disclosures

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

**Department of Health
State of Hawaii**

Notes to Basic Financial Statements
June 30, 2023

9. Commitments and Contingencies

a. Leases

The Department has entered into leases for building space and equipment use. The terms of the agreements range from 1 to 15 years through fiscal year 2038. The calculated interest rates range from was 2.87% to 4.57%. Principal and interest payment to maturity are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 553,746	\$ 132,445	\$ 686,191
2025	376,400	114,115	490,515
2026	248,172	103,123	351,295
2027	224,609	93,669	318,278
2028	201,830	84,963	286,793
2029-2033	1,158,853	274,853	1,433,706
2034-2038	656,093	71,399	727,492
	<u>\$ 3,419,703</u>	<u>\$ 874,567</u>	<u>\$ 4,294,270</u>

b. SBITA

The Department has entered into a subscription agreement. The remaining term of the agreement is through December 2023. The calculated interest rate was 3.93%. Principal and interest payments to maturity for the year ending June 30, 2024 are \$264,392 and \$2,508, respectively.

Department of Health

State of Hawaii

Notes to Basic Financial Statements
June 30, 2023

9. Commitments and Contingencies (continued)

c. Insurance Coverage

The State maintains certain insurance coverage to satisfy bond indenture agreements as well as for other purposes, but is substantially self-insured for all other perils including workers' compensation. The State records a liability for risk financing and insurance related losses, including incurred but not reported, if it is determined that a loss has been incurred and the amount can be reasonably estimated. The State retains various risks and insures certain excess layers with commercial insurance companies. At June 30, 2023, the State recorded estimated losses for workers' compensation, automobile, and general liability claims as long-term liabilities as the losses will not be liquidated with currently expendable available financial resources. The estimated losses will be paid from legislative appropriations of the State's General Fund.

The Department's portion of the State's workers' compensation expenditures for the year ended June 30, 2023 were approximately \$584,000 and \$43,000 for the general fund and other funds, respectively.

d. Litigation

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

SUPPLEMENTARY INFORMATION

Department of Health
State of Hawaii
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2023

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Project Number	Assistance Listing Number	Passed through to Subrecipients	Total Federal Expenditures
Department of Health and Human Services				
Direct Programs:				
Special Programs for the Aging - Title VII Chapter 3	468	93.041	\$ -	\$ 14,643
Special Programs for the Aging - Title VII Chapter 2	468	93.042	-	108,614
Special Programs for the Aging - Title III Part D:				
COVID 19 Special Programs for the Aging - Title III Part D	401	93.043	113,963	113,963
Special Programs for the Aging - Title III Part D	401	93.043	69,444	69,444
Subtotal Special Programs for the Aging - Title III Part D			183,407	183,407
Aging Cluster:				
COVID 19 Special Programs for the Aging - Title III Part B - Grants for Supportive Services and Senior Centers	401	93.044	783,042	783,042
Special Programs for the Aging - Title III Part B - Grants for Supportive Services and Senior Centers	401	93.044	2,239,135	2,331,472
Subtotal Special Programs for the Aging - Title III Part B - Grants for Supportive Services and Senior Centers			3,022,177	3,114,514
COVID 19 Special Programs for the Aging - Title III Part C - Nutrition Services:				
Special Programs for the Aging - Title III Part C - Nutrition Services	401	93.045	839,777	839,777
Special Programs for the Aging - Title III Part C - Nutrition Services:				
Special Programs for the Aging - Title III Part C - Nutrition Services	401	93.045	1,966,108	2,517,636
Subtotal Special Programs for the Aging - Title III Part C - Nutrition Services			2,805,885	3,357,413
Nutrition Services Incentive Program	406	93.053	336,807	336,807
Subtotal Aging Cluster			* 6,164,869	6,808,734
Special Programs for the Aging - Title IV and Title II - Discretionary Projects	405	93.048	-	364,357
Alzheimer's Disease Demonstration Grants to States	491, 769	93.051	-	59,733
National Family Caregiver Support, Title III, Part E:				
COVID 19 National Family Caregiver Support, Title III, Part E	401	93.052	65,743	65,743
National Family Caregiver Support, Title III, Part E	401	93.052	426,681	426,681
Subtotal National Family Caregiver Support, Title III, Part E			492,424	492,424
Public Health Emergency Preparedness:				
COVID 19 Public Health Emergency Preparedness	1297	93.069	-	1,500
Public Health Emergency Preparedness	1297	93.069	-	3,208,621
Subtotal Public Health Emergency Preparedness			-	3,210,121
Medicare Enrollment Assistance Program	765, 767	93.071	-	121,989
Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP)				
Public Health Emergency Preparedness (PHEP)	1297	93.074	-	314,164
Affordable Care Act (ACA) Personal Responsibility Education Program	613	93.092	14,473	111,846
Food and Drug Administration Research	710	93.103	-	244,397
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	430	93.104	1,102,081	2,107,078
Maternal and Child Health Federal Consolidated Programs:				
COVID 19 Maternal and Child Health Federal Consolidated Programs	220	93.110	68,829	148,105
Maternal and Child Health Federal Consolidated Programs	various	93.110	896,509	1,224,507
Subtotal Maternal and Child Health Federal Consolidated Programs			965,338	1,372,612

* Denotes Major Federal Program

The accompanying notes are an integral part of this schedule

Department of Health
State of Hawaii
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2023

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Project Number	Assistance Listing Number	Passed through to Subrecipients	Total Federal Expenditures
Department of Health and Human Services (Continued)				
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	247	93.116	\$ -	\$ 1,182,992
Emergency Medical Services for Children	670	93.127	-	177,705
Cooperative Agreements to States/Territories for the				
Coordination and Development of Primary Care Offices	298	93.130	-	38,638
Injury Prevention and Control Research and State and Community				
Based Programs	278, 492, 670	93.136	1,524,638	2,551,402
Projects for Assistance in Transition from Homelessness	33208, 34208	93.150	234,679	234,679
COVID 19 Rural Health Research Centers	579	93.155	354,134	354,134
Childhood Lead Poisoning Prevention Projects - State and Local				
Childhood Lead Poisoning Prevention and Surveillance of				
Blood Lead Levels in Children	780	93.197	4,004	353,346
Hospitalization and Care of Hansen's Disease	264	93.215	-	640,996
State Rural Hospital Flexibility Program	415	93.241	346,635	537,822
Substance Abuse and Mental Health Services - Projects of				
Regional and National Significance	Various	93.243	* 2,388,997	2,693,607
Universal Newborn Hearing Screening	416	93.251	35,539	93,112
Immunization Cooperative Agreements:				
COVID 19 Immunization Cooperative Agreements	various	93.268	-	13,883,126
Immunization Cooperative Agreements:	459	93.268	-	2,937,876
Subtotal Immunization Cooperative Agreements			* -	16,821,002
Adult Viral Hepatitis Prevention and Control	397	93.270	83,416	207,860
Cooperative agreement: vital statistics	285	93.283	-	534,558
Small Rural Hospital Improvement Grant Program	454	93.301	111,350	111,350
Early Hearing Detection and Intervention Information System (EHDI-IS)				
Surveillance Program	301	93.314	17,550	103,287
Epidemiology and Laboratory Capacity for Infectious Diseases:				
COVID 19 Epidemiology and Laboratory Capacity for Infectious Diseases	various	93.323	-	24,496,687
Epidemiology and Laboratory Capacity for Infectious Diseases:	various	93.323	15,834,477	1,745,109
Subtotal Epidemiology and Laboratory Capacity for Infectious Diseases			15,834,477	26,241,796
State Health Insurance Assistance Program	403	93.324	-	354,222
BOLD Public Health Program	773	93.334	-	248,564
Behavioral Risk Factor Surveillance System	381, 384, 747	93.336	564,135	564,135
COVID 19 Public Health Emergency Response: Cooperative Agreement for				
Emergency Response: Public Health Crisis Response:	576, 706, 708	93.354	537,799	1,551,099
National and State Tobacco Control Program	772	93.387	1,263,135	1,263,135
COVID 19 National Initiative to Address COVID-19 Health Disparities Among				
Populations at High-Risk and Underserved, Including Racial				
and Ethnic Minority Populations and Rural Communities	357, 358	93.391	*	3,312,846
Improving Food Security, Access to Save Physical Activity, and Social Connectedness	235	93.421	240,056	303,145
Improving the Health of Americans Through Prevention and Management				
of Diabetes and Heart Disease and Stroke	702	93.426	1,696,883	1,696,883
COVID 19 Community Health Workers for COVID Response and Resilient Communities (CCR)	487	93.495	1,575,399	1,575,399
Community-Based Child Abuse Prevention Grants				
COVID 19 Community-Based Child Abuse Prevention Grants	408	93.590	154,265	154,778
Community-Based Child Abuse Prevention Grants	270, 408	93.590	179,484	395,110
Subtotal Community-Based Child Abuse Prevention Grants			333,749	549,888

* Denotes Major Federal Program

The accompanying notes are an integral part of this schedule

Department of Health
State of Hawaii
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2023

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Project Number	Assistance Listing Number	Passed through to Subrecipients	Total Federal Expenditures
Department of Health and Human Services (Continued)				
Developmental Disabilities Basic Support and Advocacy Grants				
COVID 19 Developmental Disabilities Basic Support and Advocacy Grants	240	93.630	\$ -	\$ 8,661
Developmental Disabilities Basic Support and Advocacy Grants	393	93.630	-	559,741
Subtotal Developmental Disabilities Basic Support and Advocacy Grants			-	568,402
COVID 19 Emergency Grants to Address Mental and Substance Use Disorders				
During COVID-19	519	93.665	875,287	876,607
COVID 19 CRRSA Act 2021 funding for LTC Ombudsman	468	93.747	-	77,160
Medicaid Cluster:				
State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	221, 380, 387	93.777	1,337,165	2,541,775
Medical Assistance Program	662	93.778	133,571	133,571
Subtotal Medicaid Cluster			* 1,470,736	2,675,346
Hawaii SOR	891	93.788	* 4,268,187	4,392,484
Paul Coverdell National Acute Stroke Program	396	93.810	261,954	261,954
Maternal, Infant and Early Childhood Home Visiting Grant Program:				
COVID 19 Maternal, Infant and Early Childhood Home Visiting Grant Program	409, 605	93.870	294,908	294,908
Maternal, Infant and Early Childhood Home Visiting Grant Program	602	93.870	2,128,920	2,724,294
Subtotal Maternal, Infant and Early Childhood Home Visiting Grant Program			2,423,828	3,019,202
National Bioterrorism Hospital Preparedness Program				
COVID 19 National Bioterrorism Hospital Preparedness Program	499	93.889	485,153	485,153
National Bioterrorism Hospital Preparedness Program	435	93.889	1,032,968	1,032,968
Subtotal National Bioterrorism Hospital Preparedness Program			1,518,121	1,518,121
Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations	448	93.898	1,171,713	1,173,724
Grants to States for Operation of Offices of Rural Health	299	93.913	74,859	228,851
HIV Care Formula Grants (Ryan White HIV/AIDS Program Part B)	293, 296	93.917	1,084,151	1,084,151
HIV Prevention Activities - Health Department Based	266	93.940	917,319	1,680,886
Closing the Gap with Social Determinants of Health Accelerator Plans	341	93.945	104,457	104,457
Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	319	93.946	3,127	167,349
Block Grants for Community Mental Health Services:				
COVID 19 Block Grants for Community Mental Health Services	201	93.958	575,899	950,661
Block Grants for Community Mental Health Services	various	93.958	1,989,995	3,652,572
Subtotal Block Grants for Community Mental Health Services			* 2,565,894	4,603,233
Block Grants for Prevention and Treatment of Substance Abuse				
COVID 19 Block Grants for Prevention and Treatment of Substance Abuse	347, 952	93.959	834,230	834,230
Block Grants for Prevention and Treatment of Substance Abuse	various	93.959	10,239,284	10,322,928
Subtotal Block Grants for Prevention and Treatment of Substance Abuse			* 11,073,514	11,157,158
Preventive Health Services - Sexually Transmitted Diseases				
Control Grants	256, 268	93.977	-	540,664
Mental Health Disaster Assistance and Emergency Mental Health	363	93.982	2,125,552	2,566,614
Preventive Health and Health Services Block Grant	various	93.991	95,700	767,074

* Denotes Major Federal Program

The accompanying notes are an integral part of this schedule

Department of Health
State of Hawaii
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2023

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Project Number	Assistance Listing Number	Passed through to Subrecipients	Total Federal Expenditures
Department of Health and Human Services (Continued)				
Maternal and Child Health Services Block Grant to the States				
Improvement	40201, 41201	93,994	\$ 94,800	\$ 2,100,153
Transformation Transfer Initiative	242	93.UNKNOWN	-	1,800
Hawaii State Mental Health Data Infrastructure Contract for Quality Improvement	318	93.UNKNOWN	-	77,639
US FDA Tobacco Retail Inspection Contract/Hawaii State Enforcement	633	93.UNKNOWN	400,795	501,051
Total Department of Health and Human Services Programs			66,599,161	119,955,801
Department of Agriculture				
Direct Programs:				
Plant and Animal Disease, Pest Control, and Animal Care	599, 740	10.025	-	126,999
Special Supplemental Nutrition Program for Women, Infants and Children	275, 295, 550	10.557	* 3,766,949	29,596,348
Total Department of Agriculture Programs			3,766,949	29,723,347
Environmental Protection Agency				
Direct Programs:				
Air Pollution Control Program Support	233	66.001	-	382,117
Surveys, Studies, Research, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	294	66.034	-	214,280
Multipurpose Grants to States and Tribes	667	66.204	-	12,577
Water Pollution Control State, Interstate, and Tribal Program Support	231, 601	66.419	-	2,063,044
State Public Water System Supervision	232	66.432	-	529,078
WIIN Act - Testing for Lead in Drinking Water at Schools and Child Care Programs	244	66.444	-	263,563
Water Quality Management Planning	16284	66.454	-	153,852
Capitalization Grants for Clean Water State Revolving Funds	various	66.458	* 12,306,000	12,306,000
Nonpoint Source Implementation Grants	9290	66.460	745,170	1,140,233
Capitalization Grants for Drinking Water State Revolving Funds	various	66.468	* 20,784,016	20,784,016
Beach Monitoring and Notification Program	8291	66.472	-	325,336
Performance Partnership Grants	330	66.605	-	166,517
Environmental Information Exchange Network Grant Program and Related Assistance	570	66.608	-	55,000
Toxic Substances Compliance Monitoring Cooperative Agreements	243	66.701	-	4,048
Hazardous Waste Management State Program Support	230	66.801	-	458,964
Superfund State, Political Subdivision, and Indian Tribe Site- Specific Cooperative Agreements	394	66.802	-	252,008
Underground Storage Tanks Prevention, Detection and Compliance Program	339	66.804	-	269,470
Leaking Underground Storage Tank Trust Fund Corrective Action Program	258	66.805	-	277,832
State and Tribal Response Program Grants	360, 362	66.817	-	634,867
Total Environmental Protection Agency Programs			33,835,186	40,292,802
Department of Education				
Direct Program--				
Special Education - Grants for Infants and Families	213	84.181A	406,661	1,964,719
COVID 19 Special Education - Grants for Infants and Families	269	84.181X	614,241	641,589
Subtotal Special Education - Grants for Infants and Families			1,020,902	2,606,308
Total Department of Education Programs			1,020,902	2,606,308

* Denotes Major Federal Program

The accompanying notes are an integral part of this schedule

Department of Health
State of Hawaii
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2023

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Project Number	Assistance Listing Number	Passed through to Subrecipients	Total Federal Expenditures
Department of Treasury				
Passed-through from the State of Hawaii--				
Coronavirus State Fiscal Recovery Fund	various	21.027	* \$ 1,044,553	\$ 97,012,243
Total Department of Treasury Programs			<u>1,044,553</u>	<u>97,012,243</u>
Department of Defense				
Direct Program--				
State Memorandum of Agreement Program for the Reimbursement of Technical Services	245	12.113	-	241,162
Total Department of Defense Programs			-	<u>241,162</u>
Department of Transportation				
Direct Program--				
Hazardous Materials Emergency Preparedness	641	20.703	-	200,564
Total Department of Transportation Programs			-	<u>200,564</u>
Total Expenditures of Federal Awards			<u>\$ 106,266,751</u>	<u>\$ 290,032,227</u>

* Denotes Major Federal Program

The accompanying notes are an integral part of this schedule

**Department of Health
State of Hawaii**

Notes to the Schedule of Expenditures of Federal Awards
Fiscal 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 State of Hawaii, Department of Health (the “Department”) under programs of the federal government for the fiscal year ended June 30, 2023. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Department, it is not intended to and does not present the financial position, change in net position, or cash flows of the Department.

2. Summary of Significant Accounting Policies

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

3. Loans Outstanding

The Department had the following loan balances outstanding at June 30, 2023. Loans made during the year are included in the federal expenditures presented in the schedule of expenditures of federal awards.

Program Title	ALN	Amount Outstanding
Capitalization Grants for Clean Water State Revolving Funds	66.458	\$ 36,665,731
Capitalization Grants for Drinking Water State Revolving Funds	66.468	\$ 41,954,801

4. Noncash Awards

The Department also receives noncash awards for the Immunization Cooperative Agreements Program. The Department expended approximately \$15,300,000 in vaccines for the Immunization Cooperative Agreements Program for the fiscal year ended June 30, 2023.

5. Indirect Cost Rate

The Department has elected not to use the 10-percent de minimus indirect cost rate allowed under the Uniform Guidance.

PART II

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



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

Independent Auditor's Report

Office of the Auditor
State of Hawaii

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of Hawaii, Department of Health (Department), as of and for the fiscal year ended June 30, 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 22, 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 item 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 deficiencies described in the accompanying schedule of findings and questioned costs as items 2023-002 to 2023-004 to be significant deficiencies.

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*.

Department's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Department's response to the findings identified in our audit and described in the accompanying corrective action plan. 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KMH LLP

KMH LLP

Honolulu, Hawaii
March 22, 2024

PART III

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



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

Independent Auditor’s Report

Office of the Auditor
State of Hawaii

Report on Compliance for Each Major Federal Program

Qualified and Unmodified Opinions

We have audited the State of Hawaii, Department of Health’s (Department’s) compliance with the types of compliance requirements identified as subject to audit in the OMB *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 auditor’s results section of the accompanying schedule of findings and questioned costs.

Qualified Opinion on Major Federal Programs Identified in the Table Below

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 the major federal programs identified in the table below for the year ended June 30, 2023.

Assistance Listing Number	Name of Federal Program
93.243	Substance Abuse and Mental Health Services Projects of Regional and National Significance
93.268	Immunization Cooperative Agreements
93.788	Opioid STR
93.958	Block Grants for Community Mental Health
93.959	Block Grants for Prevention and Treatment of Substance Abuse

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the Department complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 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 (GAAS); the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); 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 Auditor’s Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Department and to meet our 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 Major Federal Programs Identified in Table Below

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

Assistance Listing Number	Name of Federal Program	Compliance Requirement	Ref. No.
93.243	Substance Abuse and Mental Health Services Projects of Regional and National Significance	Reporting	2023-005
93.268	Immunization Cooperative Agreements	Reporting	2023-006
93.788	Opioid STR	Reporting	2023-007
93.958	Block Grants for Community Mental Health Services	Matching, Level of Effort, Earmarking	2023-008
93.958	Block Grants for Community Mental Health Services	Reporting	2023-009
93.959	Block Grants for Prevention and Treatment of Substance Abuse	Reporting	2023-010

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

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.

Auditor's Responsibility 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 GAAS, *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 GAAS, *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

Government Auditing Standards requires the auditor perform limited procedures on the Department's response to the noncompliance 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.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's 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 reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2023-005 through 2023-010 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2023-011 to be a significant deficiency.

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

Government Auditing Standards requires the auditor to perform limited procedures on the Department's response to the internal control over compliance 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.

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

KMH LLP

KMH LLP

Honolulu, Hawaii
March 22, 2024

PART IV
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**Department of Health
State of Hawaii**

Schedule of Findings and Questioned Costs
June 30, 2023

Section I – Summary of Auditor’s Results

Financial Statements

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

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None reported

Type of auditor’s report issued on compliance for major federal programs: Unmodified for all major federal programs except for Substance Abuse and Mental Health Services Projects of Regional and National Significance, Immunization Cooperative Agreements, Opioid STR, Block Grants for Community Mental Health Services and Block Grants for Prevention and Treatment of Substance Abuse, which were qualified.

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

**Department of Health
State of Hawaii**

Schedule of Findings and Questioned Costs
June 30, 2023

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

Identification of major federal programs:

Assistance Listing Number	Name of Federal Program or Cluster
Department of Health & Human Services	
Aging Cluster:	
93.044	Special Programs for Aging – Title III Part B – Grants for Supportive Services and Senior Centers
93.045	Special Programs for Aging – Title III Part C – Nutrition Services
93.053	Nutrition Services Incentive Program
93.243	Substance Abuse and Mental Health Services Projects of Regional and National Significance
93.268	Immunization Cooperative Agreements
93.391	Activities to Support State, Tribal, Local and Territorial (STLT) Health Department Response to Public Health or Healthcare Crises
Medicaid Cluster:	
93.777	State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare
93.778	Medical Assistance Program
93.788	Opioid STR
93.958	Block Grants for Community Mental Health Services
93.959	Block Grants for Prevention and Treatment of Substance Abuse
Environmental Protection Agency	
66.458	Capitalization Grants for Clean Water State Revolving Funds
66.468	Capitalization Grants for Drinking Water State Revolving Funds
Department of Treasury	
21.027	Coronavirus State Fiscal Recovery Funds
Department of Agriculture	
10.557	Special Supplemental Nutrition Program for Woman, Infants and Children

**Department of Health
State of Hawaii**

Schedule of Findings and Questioned Costs
June 30, 2023

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

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

\$3,000,000

Auditee qualified as low-risk auditee?

Yes

No

**Department of Health
State of Hawaii**

Schedule of Findings and Questioned Costs
June 30, 2023

Section II – Financial Statement Findings

Finding No.: 2023-001 Opioid Settlement Accrual

Type of Finding: Material Weakness

Criteria: In accordance with Governmental Accounting Standards Board Statement No. 34, government-wide and fiduciary fund financial statements should be prepared using the economic resources measurement focus and the accrual basis of accounting. Under this focus/basis, assets and revenues resulting from exchange and exchange-like transactions should be recognized when the exchange takes place. Fund financial statements should be prepared using the current financial resources measurement focus and the modified accrual basis of accounting. Under this focus/basis revenue should be recognized in the accounting period in which they become available and measurable.

Condition: During our audit, it was determined that settlement receivables related to the national opioid settlement agreement were not recorded, which resulted in net position for governmental activities and fiduciary fund being understated. We proposed and management accepted adjustments of \$57.1 million to increase receivable and revenue for government-wide, \$57.1 million to increase receivable and deferred inflows for other governmental funds and \$12.3 million to increase receivable and revenue for fiduciary funds. The adjustments were recorded in the Department’s financial statement as of June 30, 2023.

Context: The State and its political subdivisions (the Counties) are currently participating in national opioid settlements against pharmaceutical distributors and manufactures related to the companies’ role in the opioid epidemic. On October 21, 2022, the State and its political subdivisions entered into three settlement agreements of approximately \$81.8 million, with approximately \$69.5 million allocated to the State, to be paid over 18 years. The settlement proceeds of the Counties is held with the State.

Cause: Management was not diligent in identifying the appropriate accounting for significant unusual transactions similar to the opioid settlement.

Effect: The lack of diligence in identifying the appropriate accounting for significant unusual transactions increases the risk of material misstatement as demonstrated by the results of this year’s audit.

Identification as a Repeat Finding, if applicable: Not Applicable

**Department of Health
State of Hawaii**

Schedule of Findings and Questioned Costs
June 30, 2023

Section II – Financial Statement Findings (continued)

Recommendation: We recommend that management perform a more diligent in identifying the appropriate accounting for significant unusual transactions.

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

**Department of Health
State of Hawaii**

Schedule of Findings and Questioned Costs
June 30, 2023

Section II – Financial Statement Findings (continued)

**Finding No.: 2023-002 Adoption of Governmental Accounting Standards Board Statement
No. 96 - Subscription-Based Technology Arrangements**

Type of Finding: Significant Deficiency

Criteria: Governmental Accounting Standards Board Statement No. 96 (GASB 96) provides guidance on the accounting and financial reporting for Subscription-Based Information Technology Arrangements (SBITA). GASB 96 (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 costs of a SBITA; and (4) requires note disclosures regarding a SBITA.

Condition: During our audit, it was determined that a SBITA was not properly evaluated, which resulted in SBITA of approximately \$807,000 not being recognized. We proposed and management accepted an adjustment to record SBITA of approximately \$807,000 including the related subscription liability and accumulated amortization. The adjustments were recorded in the Department’s financial statements as of June 30, 2023.

Context: GASB 96 was effective for all fiscal years beginning after June 15, 2022. Management is responsible for reviewing all IT related arrangements for potential SBITA to ensure all SBITA that meets the criteria are recorded. During the audit, there was a SBITA that was not identified by management during the implementation of GASB 96.

Cause: Management was not diligent in reviewing IT related arrangements for SBITA.

Effect: The lack of diligence in review increases the risk of material misstatement.

Identification as a Repeat Finding, if applicable: Not Applicable

Recommendation: We recommend that management perform a more diligent review of IT arrangements to ensure all SBITA are recorded.

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

**Department of Health
State of Hawaii**

Schedule of Findings and Questioned Costs
June 30, 2023

Section II – Financial Statement Findings (continued)

Finding No.: 2023-003 Reliance on Third Party Certifications

Type of Finding: Significant Deficiency

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

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

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

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

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

**Department of Health
State of Hawaii**

Schedule of Findings and Questioned Costs
June 30, 2023

Section II – Financial Statement Findings (continued)

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

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

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

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

Identification as a Repeat Finding, if applicable: See finding 2022-001 included in the Summary Schedule of Prior Audit Findings.

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

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

**Department of Health
State of Hawaii**

Schedule of Findings and Questioned Costs
June 30, 2023

Section II – Financial Statement Findings (continued)

Finding No.: 2023-004 Schedule of Expenditures of Federal Awards (SEFA) Preparation

Type of Finding: Significant Deficiency

Criteria: The Office of Management and Budget (OMB) issued Uniform Guidance, which requires nonfederal entities that expend \$750,000 or more in federal awards a year to have a Single Audit conducted on its federal award programs and SEFA. 2 CFR 200.510(b) states "the auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee’s financial statements which must include the total Federal awards expended... At a minimum, the schedule must...(4) include the total amount provided to subrecipients from each Federal program..."

Condition: During the audit, we proposed and the Department recorded the following adjustment to decrease the total amount provided to subrecipients originally provided for the following programs:

Assistance Listing No.	Program Name	Adjustment
93.268	Immunization Cooperative Agreements	\$11,369,605
93.391	National Initiative to Address COVID-19 Health Disparities Among Populations at High-Risk and Underserved, Including Racial and Ethnic Minority Populations and Rural Communities	\$3,317,376

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

Cause: Incorrect amount in the SEFA was primarily caused by a lack of verification of final program expenditures passed through to subrecipients at the program level. In this instance, there was a lack of communication between program grant coordinators and program accountants due to turnover in personnel.

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

**Department of Health
State of Hawaii**

Schedule of Findings and Questioned Costs
June 30, 2023

Section II – Financial Statement Findings (continued)

Identification as a Repeat Finding, if applicable: See finding 2022-002 included in the Summary Schedule of Prior Audit Findings.

Recommendation: We recommend that the Department be more diligent in following their process of compiling, verifying and reconciling the Schedule of Expenditures of Federal Awards, including the amounts reported as passed through to subrecipients.

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

**Department of Health
State of Hawaii**

Schedule of Findings and Questioned Costs
June 30, 2023

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

Cause: Based on further inquiry with Department personnel, we noted that the failure to timely report first-tier subawards to FSRS was caused by a lack of awareness of the FSRS reporting requirement in prior years. The failure to accurately report first-tier subawards to FSRS was caused by a lack of diligence.

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

Questioned Costs: None

Identification as a Repeat Finding, if applicable: See finding 2022-008 included in the Summary Schedule of Prior Audit Findings.

Recommendation: We recommend program management be more diligent in following Federal deadlines and grant agreements in order to ensure compliance with Federal requirements. We also recommend program management be more diligent in understanding all requirements of grant agreements to ensure compliance with Federal requirements.

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

**Department of Health
State of Hawaii**

Schedule of Findings and Questioned Costs
June 30, 2023

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

Finding No.: 2023-006	Reporting
Federal Agency:	Department of Health and Human Services (DHHS)
Assistance Listing No.:	93.268
Requirement:	Reporting
Type of Finding:	Material Noncompliance and Material Weakness
Program:	Immunization Cooperative Agreements
Federal award no. and year:	NH23IP922614 07/01/19 – 06/30/23

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

Condition: We noted four FFRs were not timely submitted.

Context: The program was required to submit eight FFRs during the year. During the audit, we noted that four FFRs selected for testing were submitted between 92 and 117 days after the close of the statutory grant period.

Cause: Based on further inquiry with Department personnel, we noted that the delay in submitting the FFRs was caused by a lack of personnel available to monitor reporting requirements and complete reporting requirements timely.

Effect: Failure to timely submit FFRs results in noncompliance with the reporting requirement.

Questioned Costs: None

Identification as a Repeat Finding, if applicable: Not applicable

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

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

**Department of Health
State of Hawaii**

Schedule of Findings and Questioned Costs
June 30, 2023

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

Cause: Based on further inquiry with Department personnel, we noted that the failure to timely report first-tier subawards to FSRS was caused by a lack of awareness of the FSRS reporting requirement in prior years. The failure to accurately report first-tier subawards to FSRS was caused by a lack of diligence.

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

Questioned Costs: None

Identification as a Repeat Finding, if applicable: Not applicable

Recommendation: We recommend program management be more diligent in following Federal deadlines and grant agreements in order to ensure compliance with Federal requirements. We also recommend program management be more diligent in understanding all requirements of grant agreements to ensure compliance with Federal requirements.

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

**Department of Health
State of Hawaii**

Schedule of Findings and Questioned Costs
June 30, 2023

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

Finding No.: 2023-008	Level of Effort	
Federal Agency:	Department of Health and Human Services (DHHS)	
Assistance Listing No.:	93.958	
Requirement:	Matching, Level of Effort, Earmarking	
Type of Finding:	Material Noncompliance and Material Weakness	
Program:	Block Grants for Community Mental Health Services	
Federal award no. and year:	6B09SM083798-01	10/01/20 – 09/30/22
	1B09SM083952-01	03/15/21 – 03/14/23
	1B09SM085353-01	09/01/21 – 09/30/25
	1B09SM085881-01	09/01/21 – 09/30/25
	6B09SM086003-01	10/01/21 – 09/30/23
	6B09SM083952-01	03/15/21 – 03/14/24
	6B09SM087354-01	10/01/22 – 09/30/24

Criteria: 42 USC 300x-4(b) states that “a funding agreement for a grant under section 300x of this title is that the State involved will maintain State expenditures for community mental health services at a level that is not less than the average level of such expenditures maintained by the State for the 2-year period preceding the fiscal year for which the State is applying for the grant.”

Condition: We noted that the level of effort – maintenance of effort requirement was not met.

Context: The State shall for each fiscal year maintain aggregate state expenditures for community mental health services at a level that is not less than the average level of such expenditures maintained by the State for the two state fiscal years preceding the fiscal year of the grant. Expenditures for the two previous fiscal years are reported in the State plan. The Secretary of Health and Human Services may exclude from the aggregate State expenditures funds appropriated to the principal agency for authorized activities which are of non-recurring nature and for a specific purpose. Last year, the program applied for and received a waiver for the level of effort – maintenance of effort requirement. At the time of this report, the program is in the process of applying for but has not yet received a waiver.

During the audit, we noted that the average level of State expenditures for the two previous fiscal years was \$134,321,769 and State expenditures for FY2023 was \$121,675,108, which is \$12,646,661 less than the required amount.

**Department of Health
State of Hawaii**

Schedule of Findings and Questioned Costs
June 30, 2023

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

Cause: Based on further inquiry with Department personnel, we noted that the failure to meet the level of effort – maintenance of effort requirement is due to higher State expenditures in FY2021 due to the coronavirus pandemic.

Effect: Failure to meet the required level of State expenditures results in noncompliance with the Level of Effort – Maintenance of Effort requirement.

Questioned Costs: None

Identification as a Repeat Finding, if applicable: Not applicable

Recommendation: We recommend program management be more diligent in monitoring State expenditures and request a waiver for the Level of Effort – Maintenance of Effort requirement in a timely manner.

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

**Department of Health
State of Hawaii**

Schedule of Findings and Questioned Costs
June 30, 2023

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

Finding No.: 2023-009	Reporting	
Federal Agency:	Department of Health and Human Services (DHHS)	
Assistance Listing No.:	93.958	
Requirement:	Reporting	
Type of Finding:	Material Noncompliance and Material Weakness	
Program:	Block Grants for Community Mental Health Services	
Federal award no. and year:	6B09SM083798-01	10/01/20 – 09/30/22
	1B09SM083952-01	03/15/21 – 03/14/23
	1B09SM085353-01	09/01/21 – 09/30/25
	1B09SM085881-01	09/01/21 – 09/30/25
	6B09SM086003-01	10/01/21 – 09/30/23
	6B09SM083952-01	03/15/21 – 03/14/24

Criteria: Under 2 CFR Appendix A to Part 170, recipients (i.e., direct recipients) of grants or cooperative agreements are required to report first-tier subawards of \$30,000 or more to the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS). For subaward information, recipients of grants or cooperative agreements are required to report no later than the end of the month following the month in which the obligation was made.

Condition: While the program properly reported first-tier subawards of \$30,000 or more to FSRS, we noted that the first-tier subawards were not timely submitted and key data elements did not agree to the source documents provided.

**Department of Health
State of Hawaii**

Schedule of Findings and Questioned Costs
June 30, 2023

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

Context: The program was required to report information on eight first-tier subawards of \$30,000 or more. During the audit, we selected three first-tier subawards for testing, noting the following:

Transactions Tested	Subaward not Reported	Report not Timely	Subaward Amount Incorrect	Subaward Missing Key Elements
3	-	3	-	-
Dollar Amount of Tested Transactions	Subaward not Reported	Report not Timely	Subaward Amount Incorrect	Subaward Missing Key Elements
\$1,078,404	-	\$1,078,404	-	-

Cause: Based on further inquiry with Department personnel, we noted that the failure to timely report first-tier subawards to FSRS was caused by a lack of awareness of the FSRS reporting requirement in prior years.

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

Questioned Costs: None

Identification as a Repeat Finding, if applicable: See finding 2022-003 included in the Summary Schedule of Prior Audit Findings.

Recommendation: We recommend program management be more diligent in following Federal deadlines and grant agreements in order to ensure compliance with Federal requirements. We also recommend program management be more diligent in understanding all requirements of grant agreements to ensure compliance with Federal requirements.

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

**Department of Health
State of Hawaii**

Schedule of Findings and Questioned Costs
June 30, 2023

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

Finding No.: 2023-010	Reporting	
Federal Agency:	Department of Health and Human Services (DHHS)	
Assistance Listing No.:	93.959	
Requirement:	Reporting	
Type of Finding:	Material Noncompliance and Material Weakness	
Program:	Block Grants for Prevention & Treatment of Substance Abuse	
Federal award no. and year:	6B08TI083451-01	10/01/20 – 09/30/22
	6B08TI083500-01	03/15/21 – 03/14/24
	1B08TI083943-01	09/01/21 – 09/30/25
	1B08TI084582-01	09/01/21 – 09/30/25
	6B08TI084646-01	10/01/21 – 09/30/23

Criteria: Under 2 CFR Appendix A to Part 170, recipients (i.e., direct recipients) of grants or cooperative agreements are required to report first-tier subawards of \$30,000 or more to the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS). For subaward information, recipients of grants or cooperative agreements are required to report no later than the end of the month following the month in which the obligation was made.

Condition: While the program properly reported first-tier subawards of \$30,000 or more to FSRS, we noted that the first-tier subawards were not timely submitted and key data elements did not agree to the source documents provided.

**Department of Health
State of Hawaii**

Schedule of Findings and Questioned Costs
June 30, 2023

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

Context: The program was required to report information on nine first-tier subawards of \$30,000 or more. During the audit, we selected four first-tier subawards for testing, noting the following:

Transactions Tested	Subaward not Reported	Report not Timely	Subaward Amount Incorrect	Subaward Missing Key Elements
4	-	4	4	4
Dollar Amount of Tested Transactions	Subaward not Reported	Report not Timely	Subaward Amount Incorrect	Subaward Missing Key Elements
\$5,084,900	-	\$5,084,900	\$5,084,900	\$5,084,900

The key data elements that did not agree to the supporting documentation included the Amount of Subaward and Subaward Obligation/Action Date.

Cause: Based on further inquiry with Department personnel, we noted that the failure to timely report first-tier subawards to FSRS was caused by a lack of awareness of the FSRS reporting requirement in prior years. The failure to accurately report first-tier subawards to FSRS was caused by a lack of diligence.

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

Questioned Costs: None

Identification as a Repeat Finding, if applicable: Not applicable

Recommendation: We recommend program management be more diligent in following Federal deadlines and grant agreements in order to ensure compliance with Federal requirements. We also recommend program management be more diligent in understanding all requirements of grant agreements to ensure compliance with Federal requirements.

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

**Department of Health
State of Hawaii**

Schedule of Findings and Questioned Costs
June 30, 2023

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

Finding No.: 2023-011	Cash Management	
Federal Agency:	Department of Agriculture	
Assistance Listing No.:	10.557	
Requirement:	Cash Management	
Type of Finding:	Significant Deficiency	
Program:	Special Supplemental Nutrition Program for Woman, Infants, and Children	
Federal award no. and year:	7HI700HI7	10/01/2021 – 09/30/2022
		10/01/2022 – 09/30/2023
	7HI700HI1	10/01/2020 – 09/30/2022
		10/01/2021 – 09/30/2023

Criteria: The federal award program noted above is not subject to the Treasury-State Cash Management Improvement Act agreement and, as such, is subject to 2 CFR 200.305(b), which states:

“The timing and amount of advance payments must be as close as is administratively feasible to the actual disbursements by the non-Federal entity for direct program or project costs and the proportionate share of any allowable indirect costs. The non-Federal entity must make timely payment to contractors in accordance with the contract provisions.”

2 CFR section 200.303 requires that non-federal entities receiving federal awards establish and maintain internal control over the federal awards that provides reasonable assurance that the non-federal entity is managing the federal awards in compliance with federal statutes, regulations, and the terms and conditions of the federal awards.

The State of Hawaii, Department of Budget and Finance has determined and communicated in Finance Memorandum 20-02 that their standard for an “administratively feasible time period” was 21 calendar days.

Condition: During the testing of the Department’s cash management procedures, it was determined that two out of sixty payments tested were not distributed within 21 days of the draw down of funds. For the items tested, the time elapsed between draw down and payment ranged to 28 to 57 days.

**Department of Health
State of Hawaii**

Schedule of Findings and Questioned Costs
June 30, 2023

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

Context: During the fiscal year ended June 30, 2023, the Department expended \$8,398,791 (excluding food expenditures).

Cause: The Department draws down federal funds that will be needed based on the expenditures that must be paid. However, since deposits must be posted prior to the processing of payments or disbursing of the funds, it is difficult for the Department to disburse federal funds in accordance with 2 CFR 200.305 (b). Also, the State’s payment process requires all State departments to process payments through DAGS resulting in processing delays.

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

Questioned Costs: None

Identification as a Repeat Finding, if applicable: See finding 2022-005 included in the Summary Schedule of Prior Audit Findings.

Recommendation: We recommend that the Department work with DAGS and the Department of Budget and Finance to ensure compliance with established standard and timely disbursement of federal funds in accordance with 2 CFR 200.305(b).

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

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

**Department of Health
State of Hawaii**

Summary Schedule of Prior Audit Findings
June 30, 2023

STATUS REPORT

This section contains the current status of prior audit recommendations. The recommendations are referenced to the pages of the previous audit report for the fiscal year ended June 30, 2022, dated March 30, 2023.

Recommendations

Status

Part II – Financial Statement Findings

2022-001 Reliance on Third Party Certifications

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

Distributor Third Party Certifications Act 12, signed into law by Governor Ige on April 27, 2022, requires all Deposit Beverage Container (DBC) distributors to submit records that support their distribution reports, including receipts, shipping documents, and other relevant information. In addition, all DBC distributors are required to conduct independent, third-party audits of sales information on odd-number years. The Office of Solid Waste Management (OSWM) will be amending Hawaii Administrative Rules (HAR) 11-282 to implement Act 12, specifically with regards to defining the additional reporting requirements, prescribe appropriate submission methods, and outline potential penalties arising from noncompliance with Act 12. Per Hawaii Revised Statutes (HRS) §342G-122, an advisory committee must be convened for DOH to develop administrative rules that pertain to the DBC Program.

**Department of Health
State of Hawaii**

Summary Schedule of Prior Audit Findings
June 30, 2023

Recommendations

Status

Part II – Financial Statement Findings (continued)

2022-001 Reliance on Third Party Certifications (continued)

Concurrently, OSWM has begun the process of updating its statewide Integrated Solid Waste Management (ISWM) plan. Updating the ISWM plan also requires convening an outside advisory group to provide guidance on addressing ten solid waste issues defined by OSWM. One of the solid waste issues that will be examined is OSWM's current recycling programs, including the DBC Program. OSWM will take advantage of having an advisory group in place for the ISWM plan update to also develop the administrative rules to implement Act 12.

Redemption Center Third Party Certifications: OSWM has increased the frequency (from annual to quarterly) of material inventory inspections it conducts at all redemption centers to document and track the volume of deposit beverage containers collected by the redemption centers. Inventories (i.e., bales of redeemed deposit beverage containers being held onsite prior to shipping, and their corresponding weights) are inspected and documented by DBC inspectors. This information is then reviewed by the DBC Program accountants to verify each redemption center's DR-1 redemption reimbursement requests. Material stored onsite, and material in transit but not yet processed by the end user, must reasonably match the redemption weights reported to the DBC Program in the DR-1 reports.

**Department of Health
State of Hawaii**

Summary Schedule of Prior Audit Findings
June 30, 2023

Recommendations

Status

Part II – Financial Statement Findings (continued)

2022-001 Reliance on Third Party Certifications (continued)

In addition, the DBC Program accountants reconcile the weight of materials redeemed and reported in the DR-1 with weight tickets and shipping manifest documents generated by independent recycling facilities and provided as part of the redemption center's request for handling fee payments (HR-1 reports). Variances between what is reported in DR-1s and HR-1s are forwarded to DBC Program inspectors to follow up with the redemption center and determine if materials are still onsite but not yet shipped, if the materials are in transit but not yet received by an independent recycling facility, or if an escalation to enforcement actions is warranted.

This finding is still applicable. Refer to finding 2023-003.

2022-002 Schedule of Expenditures of Federal Awards (SEFA) Preparation

We recommend that the Department be more diligent in following their process of compiling, verifying and reconciling the Schedule of Expenditures of Federal Awards, including the amounts reported as passed through to subrecipients.

CAMHD will enter all recipients on the SEFA form and identified an accountant to monitor spending on contracts exceeding \$750,000.

This finding is still applicable. Refer to finding 2023-004

**Department of Health
State of Hawaii**

Summary Schedule of Prior Audit Findings
June 30, 2023

Recommendations

Status

Part III – Federal Award Findings and Questioned Costs

2022-003 ALN 93.958 Block Grants for Community Mental Health Services Reporting

We recommend program management be more diligent in following Federal deadlines in order to ensure compliance with Federal requirements. We also recommend program management be more diligent in understanding all requirements of grant agreements to ensure compliance with Federal requirements.

AMHD has decided to not contract for an accountant to assist with grant activities and will instead train AMHD staff to work on grant activities. When an FFR was not be available to be submitted within 90 days after the close of the statutory grant period, a submission extension was obtained. AMHD's first-tier subawards of \$30,000 or more are continuing to be reported to FSRS.

CAMHD has one dedicated accountant to monitor each federal grant and will ensure that the FFR includes all 1st tier sub-awards and is submitted in a timely manner.

This finding is still applicable. Refer to finding 2023-009.

2022-004 ALN 93.958 Block Grants for Community Mental Health Services Monitoring Procedures and Risk Assessment Process

We recommend the Department hire adequate staff resources to follow its procedures and internal controls to ensure compliance with Federal requirements.

CAMHD will have a dedicated accountant to any grant program above \$750,000 in contract reimbursements to over see the monitoring procedures and process.

This finding is no longer applicable.

**Department of Health
State of Hawaii**

Summary Schedule of Prior Audit Findings
June 30, 2023

Recommendations

Status

Part III – Federal Award Findings and Questioned Costs

2022-005 ALN 10.557 Special Supplemental Nutrition Program for Woman, Infants, and Children Cash Management

We recommend that the Department work with DAGS and the Department of Budget and Finance to ensure compliance with established standard and timely disbursement of federal funds in accordance with 2 CFR 200.305(b).

Upon being advised that the State of Hawaii Department of Budget and Finance determined that the “administratively feasible” time period of advance payments was 21 calendar days”, the WIC Accounting Section implemented the following changes to its Invoice payment process. 1) The WIC invoice payment workflow tracking system was revised to also track the number of days from the ASAP draw date to the check process date on Data Mart. 2) The Accountant meets with the Account Clerk weekly on the invoice workflow system to review invoices in the workflow from receipt to when payment checks are processed. 3) Within two workdays from the date that the Accountant makes the ASAP draw and transfers federal funds to the State Treasury to pay for approved invoices, the Account Clerk prepares and "pouches" the invoices to ASO Pre-Audit. 4) If a payment check is not processed within 14 calendar days from the date an invoice is pouched to ASO Pre-Audit, the Account Clerk notifies the Accountant, and contacts ASO to verify that the invoice was received.

After implementation of the revised changes, WIC saw a significant improvement in the number of days it took DAGS to enter a check process date on Data Mart.

This finding is still applicable. Refer to finding 2023-011.

**Department of Health
State of Hawaii**

Summary Schedule of Prior Audit Findings
June 30, 2023

Recommendations

Status

Part III – Federal Award Findings and Questioned Costs

2022-006 ALN 93.155 Rural Health Research Centers Reporting

We recommend program management be more diligent in understanding all requirements of grant agreements to ensure compliance with Federal requirements.

Program management will start reporting the FSRS related to contracts to Hawaii State Department of Health Office of Planning, Policy and Program Development who manages the FSRS system for the Department when a grant falls under FFATA.

This finding is no longer applicable.

2022-007 ALN 93.982 Mental Health Disaster Assistance and Emergency Mental Health

We recommend program management be more diligent in following Federal deadlines in order to ensure compliance with Federal requirements. We also recommend program management be more diligent in understanding all requirements of grant agreements to ensure compliance with Federal requirements.

FSRS – staff trained on FFATA requirement and subrecipients have submitted the UEI numbers. FFATA report completed by 6/30/23. FFR – resolved. FFR submitted to SAMHSA. Grant ended 9/29/22 closed.

This finding is no longer applicable.

**Department of Health
State of Hawaii**

Summary Schedule of Prior Audit Findings
June 30, 2023

Recommendations

Status

Part III – Federal Award Findings and Questioned Costs

2022-008 ALN 93.243 Substance Abuse and Mental Health Services

We recommend program management be more diligent in following Federal grant agreements in order to ensure compliance with Federal requirements. We also recommend program management be more diligent in understanding all requirements of grant agreements to ensure compliance with Federal requirements.

FSRS – staff trained on FFATA requirement and subrecipients have submitted the UEI numbers. FFATA reports completed by 6/30/23.

This finding is still applicable. Refer to finding 2023-005.

2022-009 ALN 93.243 Substance Abuse and Mental Health Services

We recommend that management follow its documented monitoring procedures for all subrecipient contracts.

Grant coordinators trained on procedures and documentation of subrecipient monitoring. Subrecipient monitoring started and currently following up on monitoring reports.

This finding is no longer applicable.

PART VI
CORRECTIVE ACTION PLAN

JOSH GREEN, M.D.
GOVERNOR OF HAWAII
KE KIA'AINA O KA MOKU'AINA 'O HAWAII



KENNETH S. FINK, MD, MGA, MPH
DIRECTOR OF HEALTH
KA LUNA HO'OKELE

STATE OF HAWAII
DEPARTMENT OF HEALTH
KA 'OIHANA OLAKINO
P. O. BOX 3378
HONOLULU, HI 96801-3378

In reply, please refer to:
File:

ASO-F/24-331

March 22, 2024

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

Subject: Response to Draft Report "Financial Audit of the Department of Health, State of Hawaii, for the Fiscal Year Ended June 30, 2023".

Dear Mr. Kondo:

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

We appreciate the opportunity to comment on the report.

Sincerely,

Kenneth S. Fink, MD, MGA, MPH
Director of Health

Attachment

Department of Health
 Corrective Action Plan Updates for Findings and Recommendations
 For the State Fiscal Year Ended June 30, 2023

Page(s), Finding	Corrective Action Plans Updates, Status, Responding Official
<p>P99-100 2023-001</p>	<p><u>Opioid Settlement Accrual</u> National opioid settlement agreement receivables were not recorded.</p> <p><u>Corrective Action Plan:</u> Upon receiving electronic notification of a settlement from the Department of the Attorney General, the program shall continue to notify ASO of the anticipated revenue as soon as possible. After confirmation of the electronic fund transfer, the Opioid Settlement Office Assistant shall account for each receivable as defined in the Memorandum of Agreement in the Opioid Settlement worksheet.</p> <p><u>Implementation Date:</u> April 1, 2024</p> <p><u>Responding Official:</u> John Valera, Administrator and Melanie Muraoka, Administrative Officer/Alcohol and Drug Abuse Division</p>
<p>P101 2023-002</p>	<p><u>Adoption of Governmental Accounting Standards Board Statement No. 96 - Subscription-Based Technology Arrangements</u> SBITA was not properly evaluated, which resulted in SBITA of approximately \$807,000 not being recognized.</p> <p><u>Corrective Action Plan:</u> The Health Information Systems Office (HISO) approves IT projects, but the DOH program associated with the IT project is responsible for the procurement. To prevent future oversight of identifying SBITA contracts, HISO will request that programs provide HISO with a copy of all executed IT contracts. HISO will also work closely with the Administrative Services Office contracts section to ensure that all IT contracts are properly evaluated.</p> <p><u>Implementation Date:</u> April 1, 2024</p> <p><u>Responding Official:</u> Steve Sakamoto, HISO Chief.</p>
<p>P102-103 2023-003</p>	<p><u>Reliance of Third Party Certifications</u> The Deposit Beverage Container Program does not have procedures or processes in place to validate the information being provided by redemption centers and distributors and relies solely on their certifications.</p> <p><u>Corrective Action Plan:</u> The Office of Solid Waste Management (OSWM) will continue to carry out activities that were prior to the 2022 audit's conclusion and were noted in the Corrective Action Plan. These include continuing Certified Redemption</p>

	<p>Center (CRC) inspections to track volumes of redeemed containers at an increased frequency. Data from these inspections is cross checked with CRC redemption reimbursement claims to ensure the accuracy of the claims.</p> <p>Deposit Beverage Container (DBC) accounts will also continue to reconcile the weight of redeemed material claimed by CRC's with trucking load tickets, shipping Bills of Lading and receipts from independent recycling facilities to ensure accuracy of submitted data.</p> <p>Regarding DBC distributors, the OSWM will begin implementation of a program that will require distributors to have adequate internal control processes in place to ensure accurate reporting and payments and will additionally require the submittal of independent audits of their reports and payments.</p> <p><u>Implementation Dates:</u> CRC inspections and cross check w/ reimbursement claims: The corrective actions have been implemented.</p> <p>Reconciling of reimbursement claims with trucking load tickets, bills of lading, and recycling facility receipts: The corrective actions have been implemented.</p> <p>Requirement of distributors to have adequate internal control processes and the submittal of independent audits of reports and payments: Planning to take place in the second and third quarters of calendar year 2024 with review of internal control processes and submittal of audit reports to begin as soon as feasible.</p> <p><u>Responding Official:</u> Lane Otsu, Acting Solid Waste Coordinator, Solid and Hazardous Waste Branch, Office of Solid Waste Management</p>
<p>P104-105 2023-004</p>	<p><u>Schedule of Expenditures of Federal Awards (SEFA) Preparation</u> Incorrectly in reporting expenditures passed through to subrecipients at the program level (HTH131 and HTH590).</p> <p><u>Corrective Action Plan:</u> The Immunization Program recognizes the importance of thorough monitoring and tracking of financial expenditures of federal awards. To help resolve this finding, the program has hired a Grant Manager to assist the program accountant to monitor, track, and verify program expenditures so the correct amounts are reported accurately to ASO. In addition, the program is actively engaged in hiring an Account Clerk position to also assist the monitoring, tracking, and verifying of program expenditures.</p> <p>The Chronic Disease Prevention and Health Promotion Division (CDPHPD) received clarification on the definition of “subrecipient” versus “prime” recipient and will ensure to apply this for future SEFA reporting submissions. To ensure compliance with Federal requirements, the CDPHPD will also implement additional safeguard internal controls in reviewing and verifying the SEFA by providing the data downloaded from the Financial Accounting and Management Information System (FAMIS) to</p>

	<p>generate the SEFA as supporting documents to the Administrative Officer and CDPHPD Administrator for final review and approval.</p> <p><u>Implementation Date:</u> April 1, 2024</p> <p><u>Responding Official:</u> Ronald Balajadia, Immunization Branch Chief (HTH131) Melissa Nakamura, Administrative Officer of Chronic Disease Prevention and Health Promotion Division (HTH590)</p>
<p>P106-107 2023-005</p>	<p><u>Reporting – FSRs</u> Substance Abuse and Mental Health Services - FSRs were not timely submitted and/or key data elements did not agree to the source documents.</p> <p><u>Corrective Action Plan:</u> ADAD will adopt a procedure to implement timely reporting of the first-tier subawards of \$30,000 or more Federal Funding Accountability and Transparency Act (FSRS) no later than the end of the month following the month in which the obligation (indicated by the start date of the new contract) is made.</p> <p><u>Implementation Date:</u> July 1, 2024</p> <p><u>Responding Official:</u> John Valera, Administrator and Melanie Muraoka, Administrative Officer/Alcohol and Drug Abuse Division</p>
<p>P108 2023-06</p>	<p><u>Reporting</u> FFRs were not timely submitted.</p> <p><u>Corrective Action Plan:</u> The Immunization Program recognizes the importance of continuous monitoring of program expenditures and the timely completion of FFRs for federal awards. To help resolve this finding, the program has hired a Grant Manager to assist the program accountant to monitor, track, and verify program expenditures so the correct amounts are reported accurately to ASO. In addition, the program is actively engaged in hiring an Account Clerk position to also assist the monitoring, tracking, and verifying of program expenditures.</p> <p><u>Implementation Date:</u> April 1, 2024</p> <p><u>Responding Official:</u> Ronald Balajadia, Immunization Branch Chief</p>
<p>P109-110 2023-007</p>	<p><u>Reporting – FSRs</u> Opioid STR - FSRs were not timely submitted and/or key data elements did not agree to the source documents.</p>

	<p><u>Corrective Action Plan:</u> ADAD will create a procedure to implement timely reporting of the first-tier subawards of \$30,000 or more Federal Funding Accountability and Transparency Act (FSRS) no later than the end of the month following the month in which the obligation (indicated by the start date of the new contract) is made. Upon notification of the contract and/or contract modification, the Administrative Officer will submit and update the FFATA-FSRS report until the vacant Administrative Specialist position is filled.</p> <p><u>Implementation Date:</u> July 1, 2024</p> <p><u>Responding Official:</u> John Valera, Administrator and Melanie Muraoka, Administrative Officer/Alcohol and Drug Abuse Division</p>
<p>P111 2023-008</p>	<p><u>Level of Effort</u> Maintenance of Effort requirement was not met.</p> <p><u>Corrective Action Plan:</u> AMHD and CAMHD have been in discussion with SAMHSA for the last few months about meeting the maintenance of effort requirement. This issue has not been resolved.</p> <p><u>Implementation Date:</u> July 1, 2024</p> <p><u>Responding Official:</u> Courtenay Matsu, MD, Acting Administrator, Adult Mental Health Division</p>
<p>P113 2023-009</p>	<p><u>Reporting</u> FSRS were not timely submitted and/or key data elements did not agree to the source documents.</p> <p><u>Corrective Action Plan:</u> We will work with AMHD to submit the FSRS report in a timely manner going forward.</p> <p><u>Implementation Date:</u> July 1, 2024</p> <p><u>Responding Official:</u> Janet Ledoux, Administrative Officer, Child & Adolescent Mental Health Division</p>

<p>P115-116 2023-010</p>	<p><u>Reporting – FSRS</u> Failure to accurately and timely report First tier subawards to FSRS results in noncompliance with the reporting requirement.</p> <p><u>Corrective Action Plan:</u> ADAD will create a procedure to implement timely reporting of the first-tier subawards of \$30,000 or more Federal Funding Accountability and Transparency Act (FSRS) no later than the end of the month following the month in which the obligation (indicated by the start date of the new contract) is made. Upon notification of the contract and/or contract modification, the Administrative Officer will submit and update the FFATA-FSRS report until the vacant Administrative Specialist position is filled.</p> <p><u>Implementation Date:</u> July 1, 2024</p> <p><u>Responding Official:</u> John Valera, Administrator and Melanie Muraoka, Administrative Officer/Alcohol and Drug Abuse Division</p>
<p>P117-118 2023-011</p>	<p><u>Reporting – Cash Management</u> During the testing of the Department’s cash management procedures, it was determined that two out of sixty payments tested were not distributed within 21 days of the draw down of funds. For the items tested, the time elapsed between draw down and payment ranged to 28 to 57 days.</p> <p><u>Corrective Action Plan</u> The Accountant draws cash from ASAP. After drawing federal funds, the Accountant sends the TDR to Budget and Finance (B&F) Treasury Management Section. B&F verifies the deposit and validates the TDR.</p> <p>Accountant will check Datamart daily to ensure funds are correctly posted in DataMart one day after B&F validates the TDR. The Accountant will also check DataMart daily to ensure adequate funds are available when invoice payment checks are processed.</p> <p>For payroll and indirect expenses, and DHO invoice expenditures and Pcard transactions the Accountant draws an estimated amount two days before the payroll cycle ends to be sure funds are available in Datamart. The Accountant checks the balance in DataMart daily.</p> <p><u>Implementation Date:</u> April 1, 2024</p> <p><u>Responding Official:</u> Paul Uchima, WIC Administrative Officer</p>