

**Department of Human Services
State of Hawaii**

Financial Statements
June 30, 2015
Together with Independent Auditor's Report

Submitted by

**THE AUDITOR
STATE OF HAWAII**



A Hawaii Limited Liability Partnership

March 11, 2016

Ms. Jan Yamane, Acting State Auditor
Office of the Auditor
State of Hawaii

Dear Ms. Yamane:

This is our report on the financial audit of the Department of Human Services of the State of Hawaii (DHS) as of and for the fiscal year ended June 30, 2015. Our audit was performed in accordance with the terms of our contract with the State of Hawaii and with the requirements of the U.S. Office of Management and Budget (OMB) Circular A-133, *Government Auditing Standards*, Audits of States, Local Governments, and Non-Profit Organizations.

OBJECTIVES OF THE AUDIT

The primary purpose of our audit was to form an opinion on the fairness of the presentation of the DHS's basic financial statements as of and for the fiscal year ended June 30, 2015, and to comply with the requirements of OMB Circular A-133. The objectives of the audit were as follows:

1. To provide a basis for an opinion on the fairness of the presentation of the DHS's basic financial statements.
2. To determine whether expenditures and other disbursements have been made and all revenues and other receipts to which the DHS is entitled have been collected and accounted for in accordance with the laws, rules and regulations, and policies and procedures of the State of Hawaii and the federal government.
3. To determine whether the DHS has established sufficient internal controls to properly manage federal financial assistance programs and to comply with the applicable laws and regulations.
4. To determine whether the DHS has complied with the laws and regulations that may have a material effect on the basic financial statements and on its major federal financial assistance programs.

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 OMB Circular A-133. The scope of our audit included an examination of the transactions and accounting records of the DHS as of and for the fiscal year ended June 30, 2015.

ORGANIZATION OF THE REPORT

This report is presented in five parts as follows:

- Part I – The basic financial statements and related notes of the DHS as of and for the fiscal year ended June 30, 2015, and our opinion on the basic financial statements.
- Part II – Our report on internal control over financial reporting and compliance.
- Part III – Our report on compliance with requirements applicable to 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.

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

Sincerely,



Wilcox Choy
Partner

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PART I

FINANCIAL SECTION



A Hawaii Limited Liability Partnership

Independent Auditor's Report

Office of the Auditor
State of Hawaii

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Department of Human Services of the State of Hawaii (DHS), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the DHS's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the DHS, as of June 30, 2015, and the respective changes in financial position, and the respective budgetary comparison for the General Fund and Special Revenue Funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the DHS's basic financial statements. The schedule of expenditures of federal awards as required by the Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 11, 2016 on our consideration of the DHS's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the DHS's internal control over financial reporting and compliance.

KMH LLP

KMH LLP

Honolulu, Hawaii

March 11, 2016

Department of Human Services State of Hawaii

Management Discussion and Analysis
June 30, 2015

This discussion and analysis of the financial performance of the Department of Human Services (DHS) provides an overview of the financial activities of the DHS for the fiscal year ended June 30, 2015. The intent of this discussion is to allow management to provide an objective and easily readable analysis of the financial activities of the DHS based on currently known facts, decisions, or conditions. Readers are encouraged to consider the information presented here in conjunction with the basic financial statements and other supplementary information.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

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

Government-wide Financial Statements

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

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

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

Department of Human Services State of Hawaii

Management Discussion and Analysis (continued)
June 30, 2015

Fund Financial Statements

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

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

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

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

Notes to the Basic Financial Statements

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

Department of Human Services State of Hawaii

Management Discussion and Analysis (continued)
June 30, 2015

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE FINANCIAL STATEMENTS

The following table presents a condensed government-wide statement of net position of the DHS as of June 30, 2015 and 2014.

Condensed Statement of Net Position

	2015	2014
Current Assets	\$ 493,107,820	\$ 308,606,903
Capital Assets, net	117,115,932	105,629,277
Total assets	<u>\$ 610,223,752</u>	<u>\$ 414,236,180</u>
Current Liabilities	\$ 413,500,018	\$ 279,493,727
Non-current Liabilities	9,264,229	9,308,849
Total liabilities	<u>422,764,247</u>	<u>288,802,576</u>
Net Position:		
Invested in capital assets	117,115,932	105,629,277
Unrestricted	<u>70,343,573</u>	<u>19,804,327</u>
Total net position	<u>187,459,505</u>	<u>125,433,604</u>
Total liabilities and net position	<u>\$ 610,223,752</u>	<u>\$ 414,236,180</u>

As noted earlier, an analysis of net position over time may be a useful indicator of whether a government entity's financial condition is growing stronger or weakening. During the fiscal year ended June 30, 2015, the combined net position of the DHS increased by approximately \$62 million.

The unrestricted net position of the DHS was approximately \$70.3 million as of June 30, 2015. The largest liabilities as of June 30, 2015, are the federal expenditures incurred but not yet reimbursed by the federal government as of June 30, 2015 and the estimated amount of medical assistance service provided as of June 30, 2015, for which the related claims and capitation fees will be processed and paid subsequent to June 30, 2015. For the unreimbursed federal expenses as of June 30, 2015 of \$220.4 million, the majority is an adjustment to the federal grant award for the medical assistance program, of which \$179.4 million will be received after June 30, 2015. Of the estimated \$140.4 million of medical assistance payable, the State's share of these costs is approximately \$58 million. The estimated federal share of these costs to be paid in the future was recorded as intergovernmental revenues in the current fiscal year and is included in the balance due from other governments. In addition to the estimated medical assistance payable, the liability for compensated absences totaling approximately \$14.4 million as of June 30, 2015, is not funded by state allotments until the employee uses the earned leave or is paid out upon termination. Therefore, there are no assets currently available to the DHS to pay for these liabilities as of June 30, 2015.

Department of Human Services State of Hawaii

Management Discussion and Analysis (continued)

June 30, 2015

The DHS reported a total of approximately \$117.1 million in net position invested in capital assets as of June 30, 2015. Although the DHS is not the legal owner of the state buildings that are reported as part of its capital assets, the portion of the state facilities used by the DHS are required to be reported as part of its capital assets. The DHS uses these capital assets to provide services; consequently, these assets are not available for future spending and the related annual depreciation expense of the cost of these facilities is included in the statement of activities for the fiscal year ended June 30, 2015.

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

Changes in Net Position

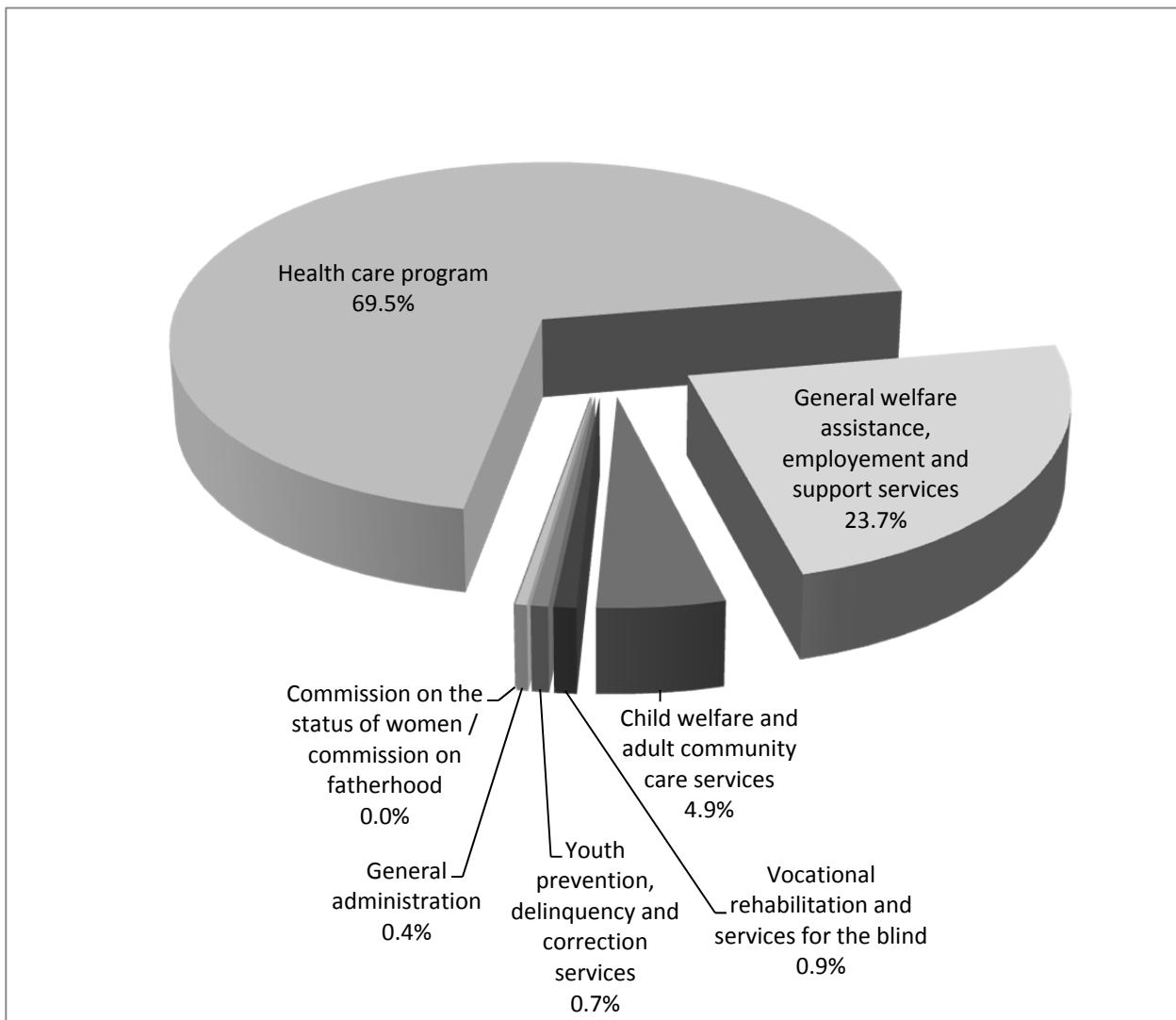
	2015	2014	Percent Change
Revenues:			
Program revenues	\$ 2,120,393,469	\$ 1,919,301,405	10.48%
General revenues	1,174,621,159	1,137,749,990	3.24%
Capital grants and contributions	-	2,613,545	(100.00)%
Total revenues	3,295,014,628	3,059,664,940	7.70%
Expenses:			
Health care programs	2,247,186,277	2,002,861,574	12.20%
General welfare assistance, employment and support services	764,952,216	768,511,941	(0.46)%
Child welfare and adult community care services	156,813,975	143,769,644	9.07%
Vocational rehabilitation and services for the blind	27,705,150	28,879,925	(4.07)%
Youth prevention, delinquency and correction services	21,187,371	21,736,835	(2.53)%
General administration	14,074,988	9,444,261	49.04%
Commission on the status of women / commission on fatherhood	170,956	151,377	12.93%
Total expenses	3,232,090,933	2,975,355,557	8.63%
Change in net position, before transfers	\$ 62,923,695	\$ 84,309,383	

Department of Human Services State of Hawaii

Management Discussion and Analysis (continued)

June 30, 2015

The total cost of all programs and services was approximately \$3.2 billion, a 8.63% increase from the prior fiscal year. Health care and general welfare assistance programs comprised 69.5% and 23.7%, respectively, of the total costs. The following chart presents each major activity as a percent of the total cost of all DHS activities:



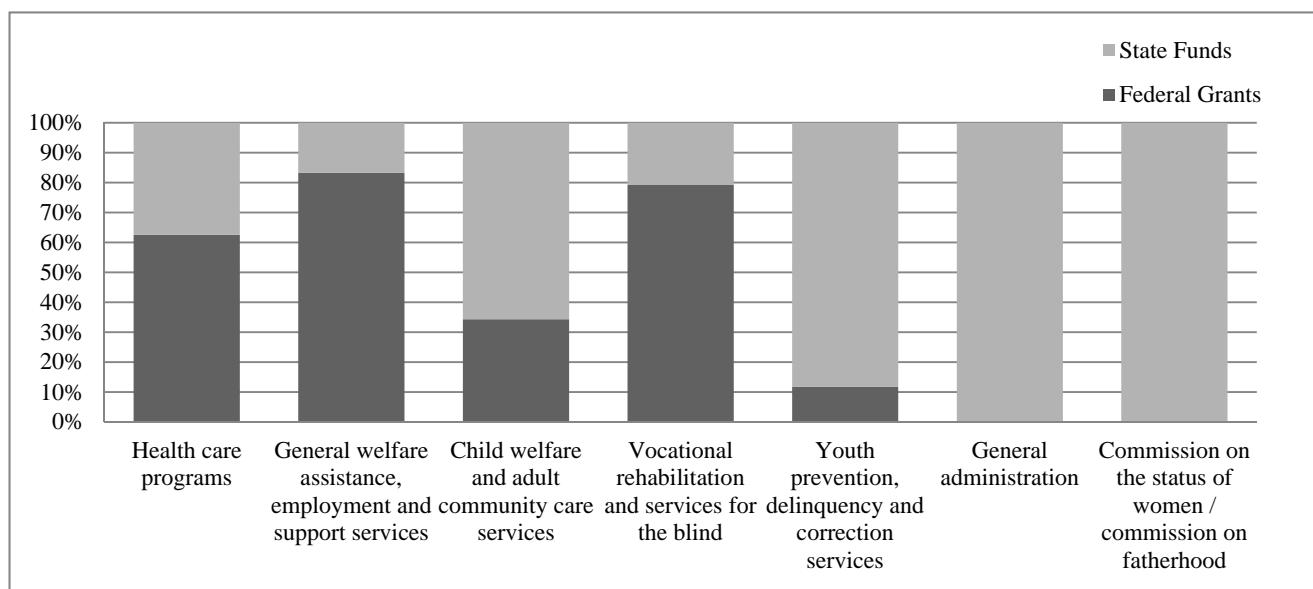
Department of Human Services State of Hawaii

Management Discussion and Analysis (continued)

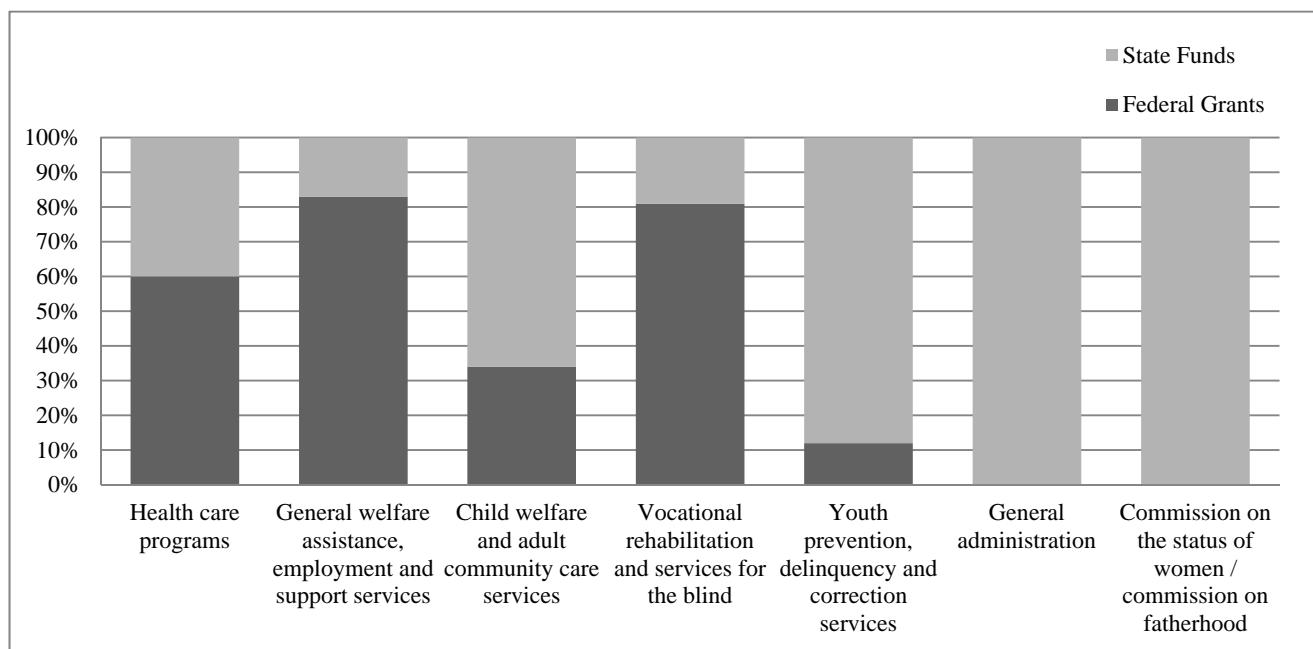
June 30, 2015

Program revenues consist primarily of operating grants from the federal government. Revenues from these federal grants paid for 65.6% of the cost of all the DHS's activities. The following chart presents the percentage of costs funded by federal grants for each major activity of the DHS for the fiscal years ended June 30, 2015 and 2014:

Fiscal Year 2015



Fiscal Year 2014



Department of Human Services State of Hawaii

Management Discussion and Analysis (continued)
June 30, 2015

FINANCIAL ANALYSIS OF THE FUND FINANCIAL STATEMENTS

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

Total expenditures reported on an accrual basis increased by \$225 million over the prior fiscal year. This increase is primarily related to health care program costs and child welfare and adult community care services program costs administered by the DHS which have increased by approximately \$212.1 million or 10.37% and \$12.7 million or 8.78%, respectively. For the health care program, medical assistance increased due to a change in eligibility criteria, an increase in the capitation rate and a rise in the federal matching percentage. The increase in costs for the child welfare and adult community care service programs are due to the increase in the foster board rate and an increase in foster care clients for fiscal year 2015.

At June 30, 2015, the total governmental fund balance of the DHS consisted of committed, and assigned fund balance of approximately, \$3.3 million, and \$81.5 million, respectively. The committed fund balance of the special revenue funds totaling \$3.3 million is principally the result of amounts that are limited by the state law for specific use.

The following table presents total revenues and expenditures of the governmental funds of the DHS for the fiscal years ended June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>	<u>Percent Change</u>
Revenues:			
State allotted appropriations	\$ 1,151,585,168	\$ 1,115,957,513	3.19%
Intergovernmental revenues	2,120,393,469	1,919,301,405	10.48%
Non-imposed employee fringe benefits	23,035,991	21,792,477	5.71%
Total	<u>\$ 3,295,014,628</u>	<u>\$ 3,057,051,395</u>	7.78%

Department of Human Services State of Hawaii

Management Discussion and Analysis (continued)
June 30, 2015

	2015	2014	Percent Change
Expenditures:			
Health care programs	\$ 2,258,652,829	\$ 2,046,519,829	10.37%
General welfare assistance, employment and support services	764,830,622	767,980,772	(0.41)%
Child welfare and adult community care services	156,798,501	144,145,143	8.78%
Vocational rehabilitation and services for the blind	27,649,384	28,777,156	(3.92)%
Youth prevention, delinquency and correction services	22,628,100	20,426,066	10.78%
General administration	13,266,108	10,419,396	27.32%
Commission on the status of women / commission on fatherhood	167,664	155,666	7.71%
Total	<u>\$ 3,243,993,208</u>	<u>\$ 3,018,424,028</u>	7.47%

BUDGETARY ANALYSIS

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

	Original Budget	Final Budget	Actual on Budgetary Basis	Variance Favorable (Unfavorable)
Health care programs	\$ 995,446,771	\$ 987,384,568	\$ 973,048,863	\$ 14,335,705
General welfare assistance, employment and support services	144,993,623	144,843,043	143,866,947	976,096
Child welfare and adult community care services	102,847,910	101,350,898	97,704,673	3,646,225
Youth prevention, delinquency and correction services	20,388,640	19,988,811	18,938,372	1,050,439
General administration	7,832,458	8,344,159	11,190,020	(2,845,861)
Vocational rehabilitation and services for the blind	4,309,129	4,249,316	4,748,337	(499,021)
Commission on the status of women/commission on fatherhood	158,547	149,174	138,422	10,752
	<u>\$ 1,275,977,078</u>	<u>\$ 1,266,309,969</u>	<u>\$ 1,249,635,634</u>	<u>\$ 16,674,335</u>

Department of Human Services State of Hawaii

Management Discussion and Analysis (continued)
June 30, 2015

The differences between the original and final budget for the individual programs is mainly due to a restriction of funds.

The majority of the savings for the health care programs were due to the late receipt of reimbursements. Because the reimbursements were received after the fiscal year ended, the program was not able to utilize the funds. The health care program also had a change in their certification process, resulting in a savings for fiscal year 2015. The amounts expended in comparison to the amount budgeted appears favorable.

CAPITAL ASSETS

As of June 30, 2015 and 2014, the cost basis of capital assets, net of accumulated depreciation, used by the DHS are presented in the table below. Approximately \$28.9 million of capital assets were added in the fiscal year ended June 30, 2015. The increase in capital assets is due to additional system upgrades for the Affordable Care Act (ACA), in the amount of \$26.8 million. Annual depreciation totaling approximately \$18 million decreased the net cost basis during the fiscal year ended June 30, 2015.

Capital Assets, Net of Depreciation

	2015	2014
Depreciable Assets:		
State office buildings and improvements	\$ 13,728,390	\$ 15,534,759
Building and improvements for the Office of Youth Services	13,295,867	11,338,960
Intangible assets - software	<u>89,754,811</u>	<u>78,116,086</u>
Total buildings and improvements	116,779,068	104,989,805
Furniture, equipment and vehicles	336,858	639,466
Non-depreciable Assets:		
Land	<u>6</u>	<u>6</u>
Total	<u><u>\$117,115,932</u></u>	<u><u>\$105,629,277</u></u>

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

Department of Human Services State of Hawaii

Management Discussion and Analysis (continued)
June 30, 2015

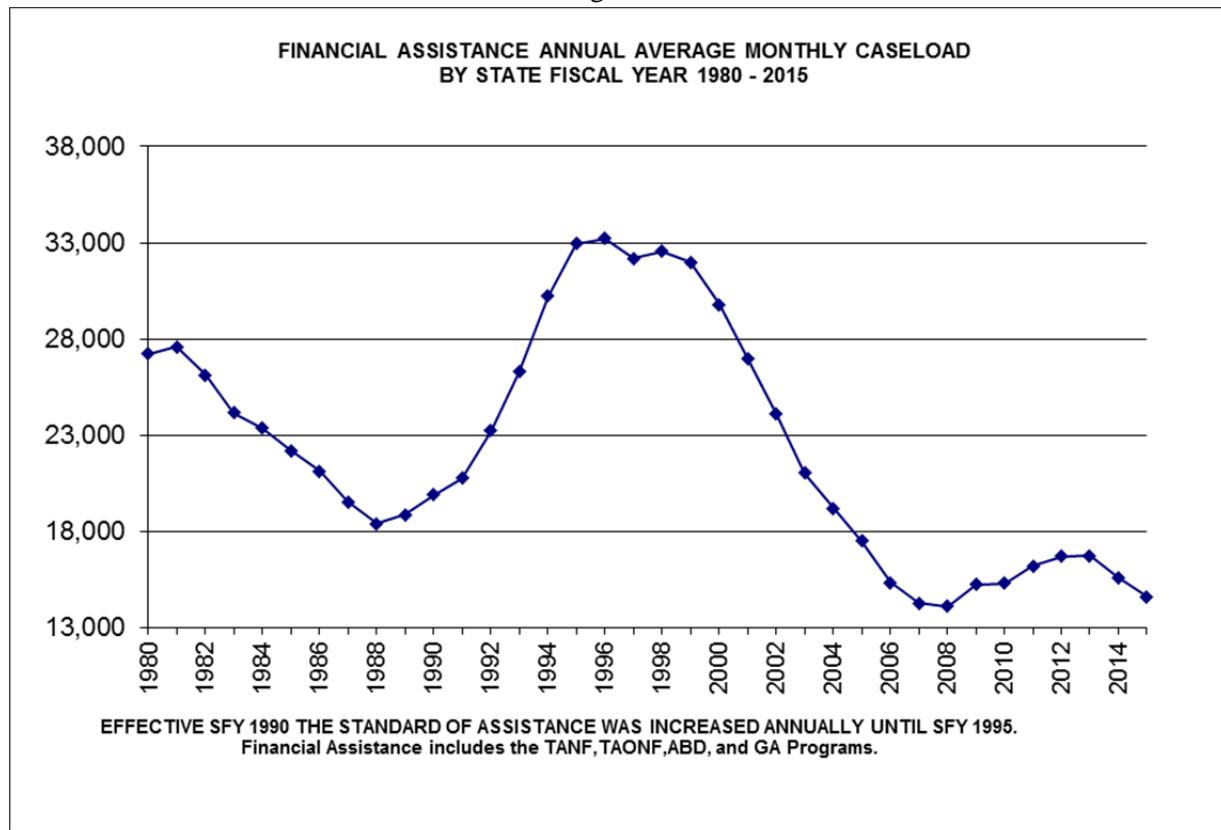
ECONOMIC FACTORS

There was a decrease in average monthly financial assistance caseload from state fiscal year 2014 to 2015, from 15,590 to 14,588 respectively. For the period ending June 2015, this was a decrease of 1,002 cases or -6.4%. In June 2014, a total of 30,841 individuals in Hawaii were receiving financial assistance as compared to 27,960 in June 2015, a decline of 2,881 individuals. This -9.3% decline follows a -7.3% decrease last year.

Over the most recent 2015 fiscal year, the average number of individuals in Hawaii receiving Supplemental Nutrition Assistance Program (SNAP), formerly known as Food Stamp Program, benefits was 191,916. This decrease of about 1% over the previous fiscal year is important to note because SNAP caseloads had been in a long-term, upward trend since 2006.

Stable growth in the economy seems to have contributed greatly to the decreases in the number of individuals receiving SNAP benefits and financial assistance in Hawaii.

Figure 1.



Department of Human Services State of Hawaii

Management Discussion and Analysis (continued)
June 30, 2015

Figure 2.

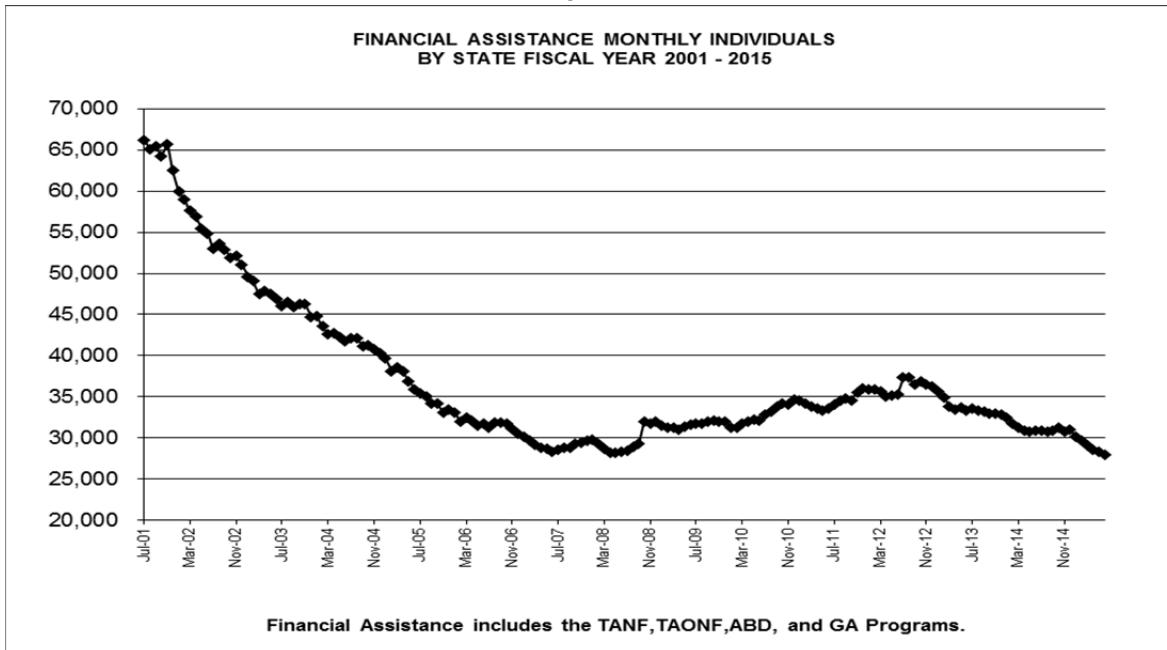
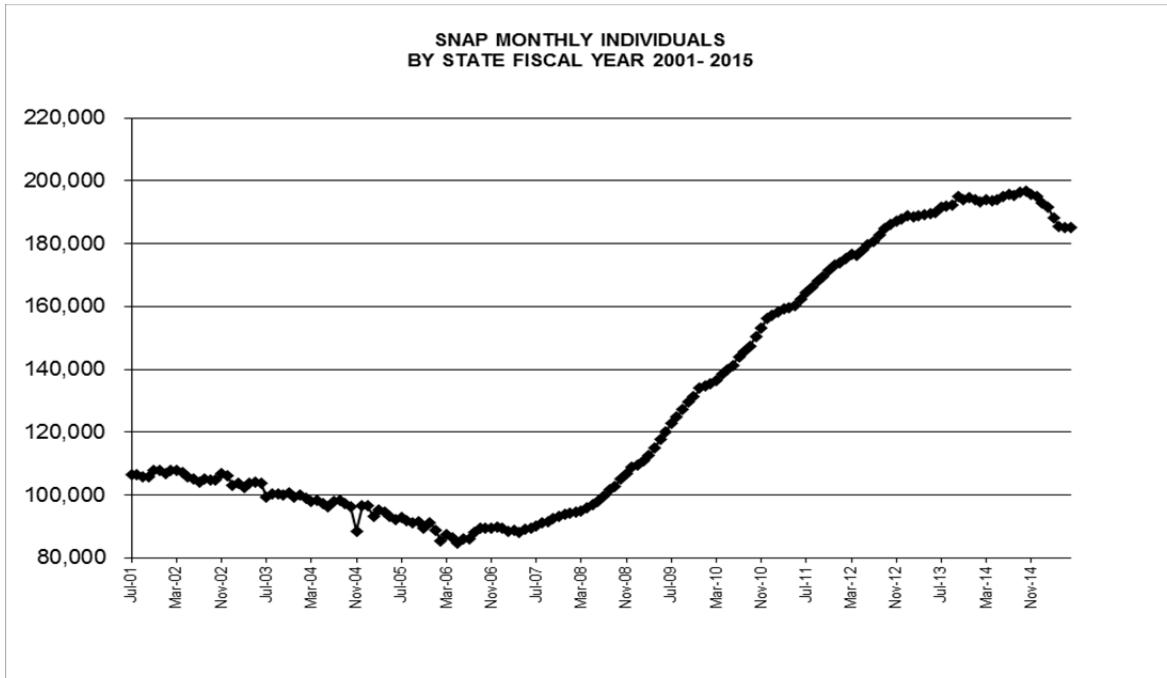


Figure 3



**Department of Human Services
State of Hawaii**

Statement of Net Position
June 30, 2015

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash and Cash Equivalents	\$ 290,878,358
Receivables, net	63,882,940
Due from Other Governments	<u>138,346,522</u>
Total current assets	493,107,820
Capital Assets, Net of Accumulated Depreciation	<u>117,115,932</u>
Total assets	<u>\$ 610,223,752</u>
<u>Liabilities</u>	
Vouchers Payable	\$ 19,086,849
Accrued Wages and Employee Benefits Payable	8,532,111
Due to State General Fund	240,256,649
Accrued Medical Assistance Payable	140,448,409
Accrued Compensated Absences	<u>5,176,000</u>
Total current liabilities	413,500,018
Accrued Compensated Absences, Less Current Portion	<u>9,264,229</u>
Total liabilities	<u>422,764,247</u>
<u>Net Position</u>	
Net Investment in Capital Assets	117,115,932
Unrestricted	<u>70,343,573</u>
Total net position	<u>187,459,505</u>
Total liabilities and net position	<u>\$ 610,223,752</u>

See accompanying notes to the basic financial statements.

**Department of Human Services
State of Hawaii**

Statement of Activities
For the Fiscal Year Ended June 30, 2015

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
Governmental Activities:				
Health care programs	\$ 2,247,186,277	\$ -	\$ 1,405,571,855	\$ (841,614,422)
General welfare assistance, employment and support services	764,952,216	-	636,606,247	(128,345,969)
Child welfare and adult community care services	156,813,975	-	53,805,701	(103,008,274)
Vocational rehabilitation and services for the blind	27,705,150	-	21,931,395	(5,773,755)
Youth prevention, delinquency and correction services	21,187,371	-	2,478,271	(18,709,100)
General administration	14,074,988	-	-	(14,074,988)
Commission on the status of women / commission on fatherhood	<u>170,956</u>	<u>-</u>	<u>-</u>	<u>(170,956)</u>
Total governmental activities	<u>\$ 3,232,090,933</u>	<u>\$ -</u>	<u>\$ 2,120,393,469</u>	<u>\$ (1,111,697,464)</u>
General Revenues:				
State allotments, net of lapsed appropriations				\$ 1,151,585,168
Nonimposed employee fringe benefits				<u>23,035,991</u>
Total general revenues				<u>1,174,621,159</u>
Transfers				<u>(897,794)</u>
Change in net position				62,025,901
Net Position at June 30, 2014				<u>125,433,604</u>
Net Position at June 30, 2015				<u>\$ 187,459,505</u>

See accompanying notes to the basic financial statements.

Department of Human Services State of Hawaii

Balance Sheet – Governmental Funds
June 30, 2015

	General	Med-QUEST Special Revenue Fund	Human Services Special Revenue Fund	Total
ASSETS:				
Cash and cash equivalents	\$ 138,290,248	\$ 71,110,218	\$ 81,477,892	\$ 290,878,358
Receivables, net	24,075,363	38,460,392	1,347,185	63,882,940
Due from other funds	232,852,501	-	-	232,852,501
Due from other governments	-	167,652,433	-	167,652,433
Total assets	\$ 395,218,112	\$ 277,223,043	\$ 82,825,077	\$ 755,266,232
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Vouchers payable	\$ 9,700,996	\$ 2,480,655	\$ 6,905,198	\$ 19,086,849
Accrued wages and employee benefits payable	5,400,413	871,502	2,260,196	8,532,111
Due to other funds	-	191,810,903	41,041,598	232,852,501
Due to other governments	-	-	29,305,911	29,305,911
Due to State general fund	240,256,649	-	-	240,256,649
Accrued medical assistance payable	58,388,426	82,059,983	-	140,448,409
Total liabilities	313,746,484	277,223,043	79,512,903	670,482,430
FUND BALANCES:				
Committed	-	-	3,312,174	3,312,174
Assigned	81,471,628	-	-	81,471,628
Total fund balances	81,471,628	-	3,312,174	84,783,802
Total liabilities and fund balances	\$ 395,218,112	\$ 277,223,043	\$ 82,825,077	\$ 755,266,232

See accompanying notes to the basic financial statements.

**Department of Human Services
State of Hawaii**

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2015

Total Fund Balances - Governmental Funds \$ 84,783,802

**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.

Capital assets:

Governmental capital assets	206,234,511
Less accumulated depreciation and amortization	<u>(89,118,579)</u>
	117,115,932

Accrued compensated absences are not due in the current period and, therefore, are not reported in the governmental funds.

Net Position of Governmental Activities \$ 187,459,505

See accompanying notes to the basic financial statements.

Department of Human Services State of Hawaii

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
For the Fiscal Year Ended June 30, 2015

	General	Med-Quest Special Revenue Fund	Human Services Special Revenue Fund	Total
REVENUES:				
State-allotted appropriations	\$ 1,151,585,168	\$ -	\$ -	\$ 1,151,585,168
Intergovernmental	-	1,405,571,855	714,821,614	2,120,393,469
Nonimposed employee fringe benefits	<u>23,035,991</u>	-	-	<u>23,035,991</u>
	<u>1,174,621,159</u>	<u>1,405,571,855</u>	<u>714,821,614</u>	<u>3,295,014,628</u>
EXPENDITURES:				
Health care programs	853,080,974	1,405,571,855	-	2,258,652,829
General welfare assistance, employment and support services	128,224,371	-	636,606,251	764,830,622
Child welfare and adult community care services	103,585,963	-	53,212,538	156,798,501
Vocational rehabilitation and services for the blind	5,743,979	-	21,905,405	27,649,384
Youth prevention, delinquency and correction services	20,149,831	-	2,478,269	22,628,100
General administration	13,266,108	-	-	13,266,108
Commission on the status of women / commission on fatherhood	<u>167,664</u>	-	-	<u>167,664</u>
	<u>1,124,218,890</u>	<u>1,405,571,855</u>	<u>714,202,463</u>	<u>3,243,993,208</u>
EXCESS OF REVENUES OVER EXPENDITURES				
	50,402,269	-	619,151	51,021,420
OTHER FINANCING SOURCES --				
TRANSFERS OUT	<u>(897,794)</u>	-	-	<u>(897,794)</u>
NET CHANGE IN FUND BALANCES	<u>49,504,475</u>	-	619,151	<u>50,123,626</u>
FUND BALANCES AT JULY 1, 2014	<u>31,967,153</u>	-	<u>2,693,023</u>	<u>34,660,176</u>
FUND BALANCES AT JUNE 30, 2015	<u>\$ 81,471,628</u>	\$ -	<u>\$ 3,312,174</u>	<u>\$ 84,783,802</u>

See accompanying notes to the basic financial statements.

**Department of Human Services
State of Hawaii**

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances to the Statement of Activities
For the Fiscal Year Ended June 30, 2015

Net Change in Fund Balances - Total Governmental Funds	\$ 50,123,626
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:	
Governmental funds report capital outlays as expenditures, however, in the statement of activities, the cost of those assets are depreciated over their estimated useful lives as depreciation expense.	
Expenditures for capital assets	29,448,558
Add current year depreciation, amortization and other changes	<u>(17,961,903)</u> 11,486,655
Change in long-term compensated absences reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	<u>415,620</u>
Change in Net Position - Governmental Activities	<u><u>\$ 62,025,901</u></u>

See accompanying notes to the basic financial statements.

**Department of Human Services
State of Hawaii**

General Fund
Statement of Revenues and Expenditures - Budget and Actual
For the Fiscal Year Ended June 30, 2015

	Original	Final	Actual on Budgetary Basis	Variance Favorable (Unfavorable)
REVENUES --				
State allotments	\$ 1,275,977,078	\$ 1,266,309,969	\$ 1,279,076,120	\$ 12,766,151
EXPENDITURES:				
Health care programs	995,446,771	987,384,568	973,048,863	14,335,705
General welfare assistance, employment and support services	144,993,623	144,843,043	143,866,947	976,096
Child welfare and adult community care services	102,847,910	101,350,898	97,704,673	3,646,225
Youth prevention, delinquency and correction services	20,388,640	19,988,811	18,938,372	1,050,439
General administration	7,832,458	8,344,159	11,190,020	(2,845,861)
Vocational rehabilitation and services for the blind	4,309,129	4,249,316	4,748,337	(499,021)
Commission on the status of women / commission on fatherhood	158,547	149,174	138,422	10,752
	<u>1,275,977,078</u>	<u>1,266,309,969</u>	<u>1,249,635,634</u>	<u>16,674,335</u>
Excess of revenues over expenditures	-	-	29,440,486	29,440,486
OTHER FINANCING SOURCES --				
TRANSFERS OUT	-	-	(897,794)	(897,794)
	-	-	(897,794)	(897,794)
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES	\$ -	\$ -	\$ 28,542,692	\$ 28,542,692

See accompanying notes to the basic financial statements.

**Department of Human Services
State of Hawaii**

Special Revenue Funds

Statement of Revenues and Expenditures - Budget and Actual
For the Fiscal Year Ended June 30, 2015

	<u>Original</u>	<u>Final</u>	<u>Actual on Budgetary Basis</u>		
			<u>Med-QUEST Special Revenue Fund</u>	<u>Human Services Special Revenue Fund</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES --					
Intergovernmental revenues:					
Med-QUEST	\$ 1,224,496,043	\$ 1,224,496,043	\$ 1,347,684,473	\$ -	\$ 123,188,430
Human services	322,328,327	322,328,327	-	209,438,800	(112,889,527)
	<u>1,546,824,370</u>	<u>1,546,824,370</u>	<u>1,347,684,473</u>	<u>209,438,800</u>	<u>10,298,903</u>
EXPENDITURES:					
Health care programs	1,224,496,043	1,224,496,043	1,232,164,868	-	(7,668,825)
General welfare assistance, employment and support services	220,589,182	220,589,182	-	48,107,513	172,481,669
Child welfare and adult community care services	71,962,561	71,962,561	-	42,225,836	29,736,725
Vocational rehabilitation and services for the blind	23,354,459	23,354,459	-	5,614,448	17,740,011
Youth prevention, delinquency and correction services	3,718,000	3,718,000	-	5,471	3,712,529
General administration	<u>2,704,125</u>	<u>2,704,125</u>	<u>-</u>	<u>855,408</u>	<u>1,848,717</u>
	<u>1,546,824,370</u>	<u>1,546,824,370</u>	<u>1,232,164,868</u>	<u>96,808,676</u>	<u>217,850,826</u>
Excess of revenues over expenditures	<u>-</u>	<u>-</u>	<u>115,519,605</u>	<u>112,630,124</u>	<u>228,149,729</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES	\$ -	\$ -	\$ 115,519,605	\$ 112,630,124	\$ 228,149,729

See accompanying notes to the basic financial statements.

**Department of Human Services
State of Hawaii**

Fiduciary Funds
Statement of Fiduciary Net Assets
June 30, 2015

	<u>Agency Fund</u>	<u>Private Purpose Trust Funds</u>
ASSETS --		
Cash	\$ 2,184,508	\$ 74,635
Total assets	<u>\$ 2,184,508</u>	<u>\$ 74,635</u>
LIABILITIES:		
Due to individuals	\$ 1,065,927	\$ -
Due to others	<u>1,118,581</u>	<u>-</u>
Total liabilities	<u>\$ 2,184,508</u>	<u>-</u>
NET ASSETS - HELD IN TRUST		<u><u>\$ 74,635</u></u>

See accompanying notes to the basic financial statements.

**Department of Human Services
State of Hawaii**

Fiduciary Funds
Statement of Changes in Fiduciary Net Assets
June 30, 2015

	Private Purpose Trust Funds
Additions --	
Donations	\$ 16,535
Total additions	<u>16,535</u>
Deductions --	
Other	<u>11,580</u>
Total deductions	<u>11,580</u>
CHANGES IN NET ASSETS	4,955
NET ASSETS AT JULY 1, 2014	<u>69,680</u>
NET ASSETS AT JUNE 30, 2015	<u>\$ 74,635</u>

See accompanying notes to the basic financial statements.

Department of Human Services State of Hawaii

Notes to Financial Statements
June 30, 2015

1. Financial Reporting Entity

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

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

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

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

General Welfare Assistance, Employment and Support Services: The Benefit, Employment and Support Services Division provides monthly benefits to assist eligible clients with such essentials as food, clothing, shelter, emergency assistance, child care, and work support, as well as employment and training to help families attain self-sufficiency. Cash benefits are provided to individuals and families through the Temporary Assistance to Needy Families, Temporary Assistance to Other Needy Families, General Assistance, and Assistance to the Aged, Blind, and Disabled programs, as well as the Low Income Home Energy Program and Child Care Connection Hawaii. The Supplemental Nutrition Assistance Program (SNAP) – formerly

Department of Human Services State of Hawaii

Notes to Financial Statements
June 30, 2015

1. Financial Reporting Entity (continued)

known as the Food Stamp Program, helps to ensure that no one goes hungry. The First-To-Work, Employment and Training programs provide job readiness, job development, job placement, case management, and other supportive services to ensure that families on public welfare are adequately prepared to end dependency, as well as providing a variety of at-risk youth and family strengthening programs to prevent family dependence. In 2011, the state homeless programs previously administered by the Hawaii Public Housing Authority, was transferred to the Division. The Division's operations are reported in the general, special revenue, and agency funds.

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

Vocational Rehabilitation and Services for the Blind: The Vocational Rehabilitation and Services for the Blind Division administers programs that provide rehabilitation services to assist eligible persons with disabilities to secure employment and to lead full and independent lives. The Vocational Rehabilitation (VR) program offers vocational evaluation, planning, counseling, treatment, training, job placement, and follow-up services to persons with physical or mental disabilities to enable them to become employed. The economic benefits of the VR program include increased earnings and purchasing power, increased tax revenues, and decreased dependency on public assistance. The Services to the Blind program, called Ho'opono, enables

Department of Human Services State of Hawaii

Notes to Financial Statements
June 30, 2015

1. Financial Reporting Entity (continued)

visually impaired adults to attain maximum vocational functional independence by providing varied services including vocational, counseling, assistive technology, and social and independent living skills training. Persons with visual impairment are also assisted in establishing and operating vending facilities. The Disability Determination program determines eligibility for Social Security Disability Insurance and Supplemental Security Income benefits under the federal Social Security Program. The Division's operations are reported in the general, special revenue, and agency funds.

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

General Administration: General administration includes the five staff offices that support the DHS administration, operating divisions, and attached agencies. The Administrative Appeals Office (AAO) provides administrative due process hearings for three departmental divisions - Benefit, Employment and Support Services, Med-QUEST, and Social Services. The AAO also serves as the rules coordinator for the DHS and reviews administrative proceedings for the adoption, modification, or repeal of departmental rules. AAO is also responsible for establishing a mediation process for the DHS. The Fiscal Management Office (FMO) provides staff assistance and advisory services for the administrative functions of fiscal management and housekeeping services. FMO formulates policies and procedures and administers the DHS's central accounting, funds management, client and vendor payment, employee payroll, inventory management, contracting, purchasing, records management, office space allocation, and central mail distribution function. The Audit, Quality Control, and Research Office (AQCRO) conducts

Department of Human Services State of Hawaii

Notes to Financial Statements
June 30, 2015

1. Financial Reporting Entity (continued)

audits, research studies, and reviews of the DHS's internal control systems and financial operations to safeguard the DHS's assets. The AQCRO serves to ensure the DHS's compliance with federal laws and regulations in monitoring the use of federal funds for services and benefits to clients. The Budget, Planning, and Management Office (BPMO) conducts studies, analyses, management evaluations, and reviews of departmental programs and operations to ascertain statutory and/or regulatory compliance, appropriate budgetary levels, and achievement of stated goals and objective. Office of Information Technology (OIT) is responsible for the overall administration, planning, direction, management, development, implementation, and maintenance of all information technology and information systems processing for the DHS statewide. The Personnel Office oversees the personnel programs of the DHS, including recruitment, examination, placement, position description, classification and pricing analysis, labor relations, civil rights, employee safety and relations, employee training and development, personnel transactions, and maintenance of personnel records. Those operations are reported in the general and special revenue funds.

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

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

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

Department of Human Services State of Hawaii

Notes to Financial Statements
June 30, 2015

2. Significant Accounting Policies

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

a. Basis of Presentation

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

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to customers who purchase, use, or directly benefit from goods or services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. State allotments and other items properly excluded from program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than program revenues.

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

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

Department of Human Services State of Hawaii

Notes to Financial Statements
June 30, 2015

2. Significant Accounting Policies (continued)

a. Basis of Presentation (continued)

The financial activities of the DHS that are reported in the accompanying fund financial statements have been classified into the following major governmental funds. In addition, a description of the DHS's fiduciary fund is as follows:

i. Governmental Fund Types

The DHS reports the following major governmental funds:

General Fund

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

Special Revenue Funds

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

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

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

ii. Fiduciary Fund Type

Trust and Agency Funds

Trust and agency funds account for various assets held by the DHS in a trustee capacity or as an agent for individuals, private organizations, other governmental agencies or other funds.

Department of Human Services State of Hawaii

Notes to Financial Statements
June 30, 2015

2. Significant Accounting Policies (continued)

b. Measurement Focus and Basis of Accounting

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

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

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

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

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

Department of Human Services State of Hawaii

Notes to Financial Statements
June 30, 2015

2. Significant Accounting Policies (continued)

b. Measurement Focus and Basis of Accounting (continued)

Fiduciary Funds - Fiduciary funds are used to account for resources held by the DHS as an agent for individuals, private organizations, other governmental agencies, and/or other funds. Fiduciary funds are custodial in nature (i.e., assets equal liabilities) and do not involve measurement of results of operations. The private purpose trust fund is used to account for donations received by the DHS which are used to benefit clients of the Ho'opono, Services for the Blind Program under the Vocational Rehabilitation and Services for the Blind division.

c. Use of Estimates

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

d. Receivables

Receivables in the general and special revenue funds consist primarily of amounts due from Medicaid providers for a retroactive adjustment to previously made payments, welfare overpayments and drug rebates from manufacturers. The amounts reported as net receivables were established based on management's estimate of amounts collectible.

e. Capital Assets

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

Department of Human Services State of Hawaii

Notes to Financial Statements
June 30, 2015

2. Significant Accounting Policies (continued)

e. Capital Assets (continued)

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

The State has adopted the following capitalization policy:

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

f. Compensated Absences

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

Department of Human Services State of Hawaii

Notes to Financial Statements
June 30, 2015

2. Significant Accounting Policies (continued)

g. Due to Individuals

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

h. Appropriations

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

i. Operating Grants and Contributions

Federal grants and assistance awards are recorded as intergovernmental receivables and revenues when all eligibility requirements have been satisfied.

j. Intrafund and Interfund Transactions

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

k. Fund Balance

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

The DHS reports the following classifications:

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

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

Department of Human Services State of Hawaii

Notes to Financial Statements
June 30, 2015

2. Significant Accounting Policies (continued)

k. Fund Balance (continued)

Assigned Fund Balance - Assigned fund balances are amounts that are constrained by the State's intent to be used for specific purposes, but are neither restricted or committed. The State Legislature authorizes the amounts to specific purposes through the budgetary process. Assigned amounts within general fund include non-liquidated encumbrances at year end that are carried forward to the next fiscal year.

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

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

l. Net Position

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

m. Risk Management

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

Department of Human Services State of Hawaii

Notes to Financial Statements
June 30, 2015

2. Significant Accounting Policies (continued)

n. Deferred Compensation Plan

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

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

o. Recent Accounting Pronouncements

Effective July 1, 2014, the DHS implemented GASB Statement No. 68 (GASB 68) and GASB Statement No. 71 (GASB 71), *Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB 68*. GASB 68 establishes standards of accounting and financial reporting for defined benefit pensions and defined contribution pensions provided to the employees of state and local government employers through pension plans that are administered through trusts or equivalent arrangements in which:

- Contributions from employers and non-employer contributing entities to the pension plan and earnings on those contributions are irrevocable
- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms
- Pension plan assets are legally protected from the creditors of employer, nonemployee contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

GASB 68 replaces the requirements of GASB Statement No. 27 (GASB 27), *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of GASB Statement No. 50 (GASB 50), *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. The requirements of GASB 27 and GASB 50 remain applicable for pensions that are not covered by the scope of GASB 68.

Department of Human Services State of Hawaii

Notes to Financial Statements
June 30, 2015

2. Significant Accounting Policies (continued)

o. Recent Accounting Pronouncements (continued)

GASB 71 is required to be implemented simultaneously with GASB 68 and amends the requirement related to certain pension contributions made to defined benefit pension plans prior to implementation of GASB 68 by employers and non-employer contributing entities.

Refer to Note 13 for more information on the adoption of Statements Nos. 68 and 71.

In June 2015, the GASB issued Statement No. 73 (GASB 73), *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. GASB 73 applies the accounting and financial reporting established in GASB 68 to all defined benefit and defined contribution pensions that are not within the scope of GASB 68. GASB 73 will be effective for the DHS's financial statements for the year ending June 30, 2017. Management is currently assessing the impact of GASB 73 on its financial position and results of operations and has not determined if the adoption will have a material effect on its financial statements.

In June 2015, the GASB issued Statement No. 75 (GASB 75), *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. GASB 75 amends the accounting guidance related to employers' accounting for postemployment benefits other than pension (other postemployment benefits or OPEB) administered through trusts that meet specified criteria. GASB 75 establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenditures related to OPEB. Note disclosures and required supplementary information are addressed by the statement. GASB 75 will be effective for the DHS's financial statements for the year ending June 30, 2018. Management is currently assessing the impact of GASB 75 on its financial position and results of operations reported on its financial statements.

In June 2015, the GASB issued Statement No. 76 (GASB 76), *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. GASB 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. GASB 76 will be effective for the DHS's financial statements for the year ended June 30, 2016. Management is currently assessing the impact of this Statement on its financial position and results of operations and has not determined if the adoption will have a material effect on its financial statements.

Department of Human Services State of Hawaii

Notes to Financial Statements
June 30, 2015

3. Budgeting and Budgetary Control

Revenue estimates are provided to the State Legislature at the time of budget consideration and are revised and updated periodically during the fiscal year. Amounts reflected as budgeted revenues in the statement of revenues and expenditures - budget and actual (budgetary basis) - are those estimates as compiled by the Council on Revenues and the Director of Finance. Budgeted expenditures are derived primarily from the Appropriations Act of 2013 (Act 134, SLH 2013), and from other authorizations contained in the State Constitution, Hawaii Revised Statutes, and other specific appropriation acts in various Session Laws of Hawaii (SLH).

All expenditures of these appropriated funds are made pursuant to the appropriations in the fiscal 2013 - 2015 biennial budget. The general and special revenue funds have legally appropriated annual budgets.

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

The legal level of budgetary control is maintained at the appropriation line item level by department, program, and source of funds as established in the appropriations act. The Governor is authorized to transfer appropriations between programs within the same department and source of funds; however, transfers of appropriations between departments generally require legislative authorization. Records and reports reflecting the detail level of control are maintained by and are available at the State Department of Accounting and General Services. During the fiscal year ended June 30, 2015, there were no expenditures in excess of appropriations in the individual funds.

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

Department of Human Services State of Hawaii

Notes to Financial Statements
June 30, 2015

3. Budgeting and Budgetary Control (continued)

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

The following schedule reconciles the budgetary amounts to the amounts presented in accordance with GAAP for the fiscal year ended June 30, 2015:

	<u>General</u>	<u>Med QUEST</u>	<u>Human Services</u>
Excess of revenues and other sources over expenditures - actual on a budgetary basis	\$ 28,542,692	\$ 115,519,605	\$ 112,630,124
Current year's appropriations encumbered at fiscal year-end	92,726,459	40,246,436	18,855,889
Expenditures for liquidation of prior fiscal year encumbrances	(63,244,999)	(99,100,072)	(102,263,753)
Net changes in liabilities	(2,340,647)	775,437	2,728,725
Net change in accrued medical assistance payable	(9,372,688)	(6,774,215)	-
Accruals related to federal reimbursements for program expenditures	127,490,952	(109,044,028)	(18,446,924)
Net change in other receivables	3,193,660	25,817	339,213
Difference for revenues recognized for GAAP purposes	<u>(127,490,954)</u>	<u>58,351,020</u>	<u>(13,224,123)</u>
Net change in fund balances - GAAP basis	<u>\$ 49,504,475</u>	<u>\$ -</u>	<u>\$ 619,151</u>

Department of Human Services State of Hawaii

Notes to Financial Statements
June 30, 2015

4. Cash and Cash Equivalents

The State's Director of Finance is responsible for the safekeeping of all monies paid into the State Treasury. The Director of Finance pools and invests any monies of the State, which in the Director's judgment, are in excess of amounts necessary for meeting the specific requirements of the State. Investment earnings are allocated to the Primary government based on its equity interest in the pooled monies. Legally authorized investments include obligations of or guaranteed by, the U.S. government, obligations of the State, federally-insured savings and checking accounts, time certificates of deposit, and repurchase agreements with federally-insured financial institutions.

Information relating to the bank balance, insurance, and collateral of cash deposits is determined on a statewide basis and not for individual departments or divisions.

a. Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from rising interest rates, the State's investment policy generally limits maturities on investments to not more than five years from the date of investment.

b. Credit Risk

The State's investment policy limits investments in state and U.S. Treasury securities, time certificates of deposit, U.S. government or agency obligations, repurchase agreements, commercial paper, bankers' acceptances, and money market funds maintaining a Triple-A rating.

c. Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the State will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The State's investments are held at broker/dealer firms which are protected by the Securities Investor Protection Corporation (SIPC) up to a maximum amount. In addition, excess-SIPC coverage is provided by the firms' insurance policies. The State also requires the institutions to set aside in safekeeping, certain types of securities to collateralize repurchase agreements. The State monitors the market value of these securities and obtains additional collateral when appropriate.

Department of Human Services State of Hawaii

Notes to Financial Statements
June 30, 2015

4. Cash and Cash Equivalents (continued)

d. Concentration of Credit Risk

The State's policy provides guidelines for portfolio diversification by placing limits on the amount the State may invest in any one issuer, types of investment instruments, and position limits per issue of an investment instrument.

e. Cash in Bank

The DHS maintains cash in banks which are held separately from cash in the State Treasury. Deposit accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000 per account holder. As of June 30, 2015, the carrying amount of total bank deposits was approximately \$705,000 and the corresponding bank balances which are represented was approximately \$788,000. As of June 30, 2015 total bank deposits of approximately \$363,000 are subject to credit risk.

5. Receivables

Receivables of the DHS, net of an allowance for doubtful accounts, consisted of the following at June 30, 2015:

	<u>General</u>	<u>Med-QUEST</u>	<u>Human Services</u>
Welfare benefit overpayments	\$ 24,099,565	\$ 2,210,537	\$ 24,049,504
Drug rebate receivable	-	35,536,026	-
Medicaid providers receivable	10,200,000	-	-
Medicaid assistance receivable	13,346,542	2,800,538	-
Social Security interim assistance loans	1,244,092	-	-
CSEA receivable	134,741	-	-
	<u>49,024,940</u>	<u>40,547,101</u>	<u>24,049,504</u>
Less allowance for doubtful accounts:			
Welfare benefit overpayments	22,749,577	2,086,709	22,702,319
Medicaid providers receivable	2,200,000	-	-
	<u>24,949,577</u>	<u>2,086,709</u>	<u>22,702,319</u>
Receivables, net	<u>\$ 24,075,363</u>	<u>\$ 38,460,392</u>	<u>\$ 1,347,185</u>

Department of Human Services State of Hawaii

Notes to Financial Statements
June 30, 2015

6. Interfund Receivable and Payable

The general fund had a net receivable due from the special revenue funds totaling \$232,852,501 as of June 30, 2015, for federal reimbursements of program expenditures. The Med-QUEST and Human Services special revenue funds had a payable to the general fund totaling \$191,810,903 and \$41,041,598, respectively, as of June 30, 2015, for federal reimbursements of program expenditures.

7. Capital Assets

	Balance					Balance	
	July 1, 2014	Additions	Disposals	Other			June 30, 2015
Depreciable Assets:							
Building and improvements	\$ 54,048,262	\$ 1,873,399	\$ -	\$ -			\$ 55,921,661
Furniture and equipment	34,774,002	52,649	(423,363)	(8,950)			34,394,338
Motor vehicles	1,862,518	60,960	(207,575)	-			1,715,903
Intangible assets – software	86,639,771	27,562,832	-	-			114,202,603
Non-Depreciable Assets--							
Land	6	-	-	-			6
Total at historical cost	<u>177,324,559</u>	<u>29,549,840</u>	<u>(630,938)</u>	<u>(8,950)</u>			<u>206,234,511</u>
Less Accumulated Depreciation/							
Amortization:							
Building and improvements	27,174,543	1,722,861	-	-			28,897,404
Furniture and equipment	34,176,998	231,790	(383,121)	(964)			34,024,703
Motor vehicles	1,820,056	84,109	(155,485)	-			1,748,680
Intangible assets - software	8,523,685	15,924,107	-	-			<u>24,447,792</u>
Total accumulated depreciation/							
amortization	<u>71,695,282</u>	<u>17,962,867</u>	<u>(538,606)</u>	<u>(964)</u>			<u>89,118,579</u>
Capital Assets, net	<u>\$ 105,629,277</u>	<u>\$ 11,586,973</u>	<u>\$ (92,332)</u>	<u>\$ (7,986)</u>			<u>\$ 117,115,932</u>

Department of Human Services State of Hawaii

Notes to Financial Statements
June 30, 2015

7. Capital Assets (continued)

Depreciation expense for the fiscal year ended June 30, 2015 was charged to functions/programs of the DHS as follows:

	<u>Governmental Activities</u>
Health care programs	\$ 16,126,359
General welfare assistance, employment and support services	572,434
Child welfare and adult community care services	260,811
Vocational rehabilitation and services for the blind	72,788
Youth prevention, delinquency and correction services	791,418
General administration	<u>139,057</u>
	<u><u>\$ 17,962,867</u></u>

8. Accrued Compensated Absences

The only long-term liability of the DHS for governmental activities is for accrued compensated absences. The change in the long-term liability during the fiscal year ended June 30, 2015, was as follows:

	<u>Amount</u>
Balance at July 1, 2014	\$ 14,855,849
Additions	7,261,870
Reductions	<u>(7,677,490)</u>
Balance at June 30, 2015	14,440,229
Less current portion	<u>(5,176,000)</u>
	<u><u>\$ 9,264,229</u></u>

Department of Human Services State of Hawaii

Notes to Financial Statements
June 30, 2015

9. Fund Balance

Fund balance constraints by purpose as of June 30, 2015 were as follows:

	General	Med-QUEST Special Revenue Fund	Human Services Special Revenue Fund	Total
Restricted:				
Child welfare and adult community care	\$ -	\$ -	\$ -	\$ -
General welfare assistance,				
employment and support services	- -	- -	- -	- -
Youth prevention, delinquency and				
correction	- -	- -	- -	- -
Total – restricted	<u>- -</u>	<u>- -</u>	<u>- -</u>	<u>- -</u>
Committed:				
Commission on the status of women /				
commission on fatherhood	- -	- -	3,364	3,364
Child welfare and adult community care	- -	- -	1,966,463	1,966,463
Vocation rehabilitation	- -	- -	1,342,347	1,342,347
Total – committed	<u>- -</u>	<u>- -</u>	<u>3,312,174</u>	<u>3,312,174</u>
Assigned:				
Human services	<u>81,471,628</u>	- -	- -	81,471,628
Total – assigned	<u>81,471,628</u>	- -	- -	81,471,628
Total fund balances	<u><u>\$ 81,471,628</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 3,312,174</u></u>	<u><u>\$ 84,783,802</u></u>

Department of Human Services State of Hawaii

Notes to Financial Statements
June 30, 2015

10. Changes in Assets and Liabilities of the Agency Funds

The agency funds are purely custodial (assets equal liabilities) and thus do not involve the measurement of results of operations. The changes in assets and liabilities of the agency funds for the fiscal year ended June 30, 2015, were as follows:

	<u>Balance</u> <u>July 1, 2014</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2015</u>
Assets --				
Cash	<u>\$ 2,133,102</u>	<u>\$ 114,694,947</u>	<u>\$ 114,643,541</u>	<u>\$ 2,184,508</u>
Liabilities --				
Due to individuals and others	<u>\$ 2,133,102</u>	<u>\$ 114,694,947</u>	<u>\$ 114,643,541</u>	<u>\$ 2,184,508</u>

11. Non-Imposed Employee Fringe Benefits

Payroll fringe benefit costs of the DHS's employees that are funded by state appropriations (general fund) are assumed by the State and are not charged to the DHS's operating funds. These costs, totaling approximately \$23,036,000 for the fiscal year ended June 30, 2015, have been reported as revenues and expenditures in the general fund of the DHS.

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

12. Leases

The DHS leases office facilities under various operating leases expiring through 2023. Certain leases include renewal and escalation clauses. The DHS's general fund share of lease costs is paid from the State General Fund. The federal share of these lease costs allocable to programs is reported in the special revenue fund of the DHS. The following is a schedule of the approximate

Department of Human Services State of Hawaii

Notes to Financial Statements
June 30, 2015

12. Leases (continued)

federal share of minimum future lease commitments for noncancelable operating leases as of June 30, 2015:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2016	\$ 1,145,000
2017	663,000
2018	480,000
2019	456,000
2020	371,000
2021 - 2023	<u>781,000</u>
	<u>\$ 3,896,000</u>

The DHS's federal share of rent expenditures for operating leases for the fiscal year ended June 30, 2015, amounted to approximately \$1,633,000, and is included in the accompanying financial statements.

13. Retirement Benefits

Employees' Retirement System

All eligible employees of the DHS are required by Chapter 88, Hawaii Revised Statutes (HRS), to become members of the Employees' Retirement System of the State of Hawaii (ERS), a cost-sharing multiple-employer public employee retirement plan. The ERS provides retirement benefits as well as death and disability benefits. The ERS is governed by a Board of Trustees. All contributions, benefits, and eligibility requirements are established by HRS Chapter 88 and can be amended by legislative action. The ERS issues an annual comprehensive financial report that is available to the public. For more information on the State's benefit plans, refer to the State of Hawaii and ERS Comprehensive Annual Financial Report (CAFR). The State's CAFR can be found at the Department of Accounting and General Services' website: <http://ags.hawaii.gov/accounting/annual-financial-reports/>. The ERS CAFR can be found at the ERS website: <http://ers.ehawaii.gov/resources/financials>.

Department of Human Services State of Hawaii

Notes to Financial Statements
June 30, 2015

13. Retirement Benefits (continued)

Prior to June 30, 1984, the plan consisted of only a contributory plan. In 1984, legislation was enacted to add a new noncontributory plan for members of the ERS who are also covered under Social Security. Police officers, firefighters, judges, elected officials, and persons employed in positions not covered by Social Security are precluded from the noncontributory plan. The noncontributory plan provides for reduced benefits and covers most eligible employees hired after June 30, 1984. Employees hired before that date were allowed to continue under the contributory plan or to elect the new noncontributory plan and receive a refund of employee contributions. All benefits vest after five and ten years of credited service under the contributory and noncontributory plans, respectively.

Both plans provide a monthly retirement allowance based on the employee's age, years of credited service, and average final compensation (AFC). The AFC is the average salary earned during the five highest paid years of service, including the vacation payment, if the employee became a member prior to January 1, 1971. The AFC for members hired on or after that date is based on the three highest paid years of service excluding the vacation payment.

On July 1, 2006, a new hybrid contributory plan became effective pursuant to Act 179, SLH of 2004. Members in the hybrid plan are eligible for retirement at age 62 with 5 years of credited service or age 55 and 30 years of credited service. Members receive a benefit multiplier of 2% for each year of credited service in the hybrid plan. The benefit plan options are similar to the current contributory plan. Almost 58,000 current members, all members of the noncontributory plan and certain members of the contributory plan were eligible to join the new hybrid plan. Most of the new employees hired from July 1, 2006, were required to join the hybrid plan.

Covered employees of the contributory plan who became members as of June 30, 2012 or after June 30, 2012 are required to contribute 7.8% or 9.8% of their salary, respectively. Police officers, firefighters, investigators of the departments of the County Prosecuting Attorney and the Attorney General, narcotics enforcement investigators, and public safety investigators who became members as of June 30, 2012 or after June 30, 2012 are required to contribute 12.2% or 14.2% of their salary, respectively. Covered employees of the hybrid plan who became members as of June 30, 2012 or after June 30, 2012 are required to contribute 6% or 8% of their salary, respectively. The funding method used to calculate the total employer contribution requirement is the Entry Age Normal Actuarial Cost Method. Effective July 1, 2005, employer contribution rates are a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liability.

Department of Human Services State of Hawaii

Notes to Financial Statements
June 30, 2015

13. Retirement Benefits (continued)

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

Contributions are established by HRS Chapter 88 and may be amended through legislature. The employer rate is set by statute based on the recommendations of the ERS actuary resulting from an experience study conducted every five years. The DHS's general fund share of the expense for pension benefits for the fiscal years ended June 30, 2015, 2014, and 2013 was paid from the State General Fund and totaled approximately \$8,677,000, \$9,004,000, and \$7,034,000, respectively. The DHS's federal share of pension benefits expense for the fiscal years ended June 30, 2015, 2014, and 2013 was approximately \$4,329,000, \$3,053,000, and \$2,634,000, respectively. The employer contribution rate for the fiscal years ended June 30, 2015, 2014, and 2013 was 16.50%, 16.00%, and 15.50%, respectively.

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

Post-Retirement Health Care and Life Insurance Benefits

The State of Hawaii contributes to the Hawaii Employer-Union Health Benefits Trust Fund (EUTF), an agent multiple-employer plan which provides certain health care (medical, prescription, vision and dental) and life insurance benefits for retired State employees. Act 88 established the EUTF during the 2001 legislative session and is codified in HRS 87A.

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

Department of Human Services State of Hawaii

Notes to Financial Statements
June 30, 2015

13. Retirement Benefits (continued)

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

For employees hired on or after July 1, 2001, and who retire with fewer than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For those employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Only single plan coverage is provided for retirees in this category. Retirees can elect family coverage but must pay the difference.

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

Contributions are based on negotiated collective bargaining agreements and are limited by State statute to the actual cost of benefit coverage. The DHS's share of the expense for post-retirement health care and life insurance benefits for the fiscal years ended June 30, 2015, 2014, and 2013, was approximately \$8,031,000, \$7,804,000, and \$6,913,000, respectively.

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

Department of Human Services State of Hawaii

Notes to Financial Statements
June 30, 2015

14. Risk Management

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

Property Insurance

The State has an insurance policy with a variety of insurers in a variety of layers for property coverage. The deductible for coverage is 3% of loss subject to a \$1 million per occurrence minimum. This policy includes windstorm, earthquake, flood damage, tsunami, and volcanic action coverage. The limit of loss per occurrence is \$225 million, except for terrorism which is \$50 million per occurrence.

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

General Liability (including torts)

Claims under \$10,000 are handled by the risk management office of the Department of Accounting and General Services. All other claims are handled by the Department of the Attorney General. The State has personal injury and property damage liability, including automobile and public errors and omissions, insurance policy in force with a \$4 million self-insured retention per occurrence. The annual aggregate per occurrence is \$15 million.

Losses under the deductible amount or over the aggregate limit are paid from legislative appropriations of the State's General Fund.

Department of Human Services State of Hawaii

Notes to Financial Statements
June 30, 2015

14. Risk Management (continued)

Self-Insured Risks

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

At June 30, 2015, the State recorded an estimated loss for workers' compensation, automobile and general liability claims as long-term debt as the losses will not be liquidated with currently expendable available financial resources. The estimated losses will be paid from legislative appropriations of the State's General Fund. The DHS's portion of the State's workers' compensation expense for the fiscal year ended June 30, 2015, was approximately \$398,000.

15. Commitments and Contingencies

Encumbrances

Encumbrances as of June 30, 2015 were as follows:

Fund	Amount
General	\$ 96,604,704
Med-QUEST	36,896,476
Human Services	32,152,478
Total	<u>\$ 165,653,658</u>

Accumulated Sick Leave

Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limit, but may be taken only in the event of illness and is not convertible to pay upon termination of employment. However, a DHS employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the ERS. At June 30, 2015, accumulated sick leave was approximately \$42 million.

Department of Human Services State of Hawaii

Notes to Financial Statements
June 30, 2015

15. Commitments and Contingencies (continued)

Litigation

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

16. Related Party Transactions

The DHS had various amounts due to the State totaling \$240,256,649 as of June 30, 2015, which included federal reimbursements for program expenditures totaling \$220,459,902, receivables totaling \$19,637,052, and cash held outside of the State Treasury totaling \$159,695.

SUPPLEMENTARY INFORMATION

**Department of Human Services
State of Hawaii**

Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2015

	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures	Amount Provided to Subrecipient
U.S. Department of Health and Human Services:				
<i>Other Programs</i>				
Promoting Safe and Stable Families	93.556		\$ 990,964	\$ 871,733
Temporary Assistance for Needy Families	93.558		58,776,263	5,867,014
Refugee and Entrant Assistance - State				
Administered Programs	93.566		14,500	-
Low-Income Home Energy Assistance	93.568		5,731,563	-
Chafee Education and Training Vouchers				
Program (ETV)	93.599		49,249	-
Children's Justice Grants to States	93.643		71,408	41,317
Stephanie Tubbs Jones Child Welfare				
Services Program	93.645		513,845	-
Foster Care - Title IV-E	93.658		16,267,514	-
Adoption Assistance	93.659		15,364,271	-
Adoption Incentive Payments	93.603		136,000	-
Guardianship Assistance	93.090		1,440,259	-
Social Services Block Grant	93.667		17,678,776	11,583,759
Child Abuse and Neglect State Grants	93.669		26,106	-
Family Violence Prevention and Services /				
Grants for Battered Women's Shelters -				
Grants to States and Indian Tribes	93.671		743,081	714,311
Chafee Foster Care Independence Program	93.674		550,214	612,031
Children's Health Insurance Program	93.767		34,922,237	-
Money Follows a Person	93.791		206,656	-
Medicaid Incentives for Prevention of				
Chronic Diseases	93.536		1,720,409	-
<i>Total Others</i>			155,203,315	19,690,165
<i>Medicaid Cluster</i>				
State Survey and Certification of Health				
Care Providers	93.777		684,231	-
Medical Assistance Program	93.778		1,294,325,529	-
<i>Total Medicaid Cluster</i>			1,295,009,760	-
<i>CCDF Cluster</i>				
Child Care and Development Block Grant	93.575		20,509,259	4,200,445
Child Care Mandatory and Matching Funds				
of the Child Care and Development Fund	93.596		12,564,393	-
<i>Total CCDF Cluster</i>			33,073,652	4,200,445
Total U.S. Department of Health and Human Services			\$ 1,483,286,727	\$ 23,890,610

See independent auditor's report and accompanying notes to the schedule of expenditures of federal awards.

**Department of Human Services
State of Hawaii**

Schedule of Expenditures of Federal Awards (continued)
For the Fiscal Year Ended June 30, 2015

	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures	Amount Provided to Subrecipient
U.S. Department of Agriculture:				
<i>SNAP Cluster</i>				
Supplemental Nutrition Assistance Program	10.551		\$ 518,769,042	\$ 1,386,270
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561		19,517,410	-
<i>Total SNAP Cluster</i>			538,286,452	1,386,270
<i>Child Nutrition Cluster</i>				
National School Lunch Program	10.555		26,050	-
School Breakfast Program	10.553		16,855	-
<i>Total Child Nutrition Cluster</i>			42,905	-
Total U.S. Department of Agriculture			538,329,357	1,386,270
U.S. Department of Housing and Urban Development:				
Emergency Solutions Grants Program	14.231		401,712	329,168
Housing Opportunities for Persons with AIDS	14.241		196,987	199,129
Continuum of Care Program	14.267		1,316,839	766,188
Shelter Plus Care	14.238		167,320	110,479
Total U.S. Department of Housing and Urban Development			2,082,858	1,404,964
U.S. Department of Justice:				
Juvenile Justice and Delinquency Prevention -				
Allocation to States	16.540		796,863	678,823
Title V - Delinquency Prevention program	16.548		20,258	20,221
Juvenile Accountability Block Grant	16.523		330,231	327,708
Crime Victim Assistance	16.575		240,563	-
Total U.S. Department of Justice			1,387,915	1,026,752
U.S. Department of Labor--				
Pass-through State Department of Labor and Industrial Relations Senior Community Service Employment Program	17.235	PY14-SCSEP-CC-DHS	204,524	-
Total U.S. Department of Labor			\$ 204,524	\$ -

See independent auditor's report and accompanying notes to the schedule of expenditures of federal awards.

**Department of Human Services
State of Hawaii**

Schedule of Expenditures of Federal Awards (continued)
For the Fiscal Year Ended June 30, 2015

	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures	Amount Provided to Subrecipient
Corporation for National and Community Service --				
<i>Foster Grandparent/Senior Companion Cluster</i>				
Foster Grandparent Program	94.011		\$ 448,095	\$ -
Senior Companion Program	94.016		387,947	-
<i>Total Foster Grandparent/Senior Companion Cluster</i>			<u>836,042</u>	
Total Corporation for National and Community Service			<u>836,042</u>	-
Social Security Administration --				
Social Security - Disability Insurance	96.001		<u>7,171,614</u>	-
Total Social Security Administration			<u>7,171,614</u>	-
U.S. Department of the Interior--				
Pass-through the State Governor's Office				
Economic, Social, Political Developments of the territories	15.875	Hawaii-Cl-2015-1	<u>12,762,262</u>	-
Total U.S. Department of the Interior			<u>12,762,262</u>	-
U.S. Department of Education:				
Rehabilitation Services - Vocational				
Rehabilitation Grants to States	84.126		13,232,380	-
Independent Living - State Grants	84.169		129,184	-
Rehabilitation Services - Independent Living Services for Older Individuals Who are Blind	84.177		223,076	-
Supported Employment Services for Individuals with the most Significant Disabilities	84.187		290,100	-
Assistive Technology	84.224		424,440	475,817
Rehabilitation Training - State Vocational Rehabilitation Unit In-Service Training	84.265		19,542	-
Total U.S. Department of Education			<u>14,318,722</u>	<u>475,817</u>
TOTAL FEDERAL EXPENDITURES			<u>\$ 2,060,380.021</u>	<u>\$ 28,184,413</u>

See independent auditor's report and accompanying notes to the schedule of expenditures of federal awards.

Department of Human Services State of Hawaii

Notes to the Schedule of Expenditures of Federal Awards
June 30, 2015

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the Department of Human Services (DHS) and is presented on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. Transfers

Grand awards totaling \$24,890,000 were transferred from CFDA 93.558 Temporary Assistance for Needy Families to CFDA 93.667 Social Services Block Grant (\$9,890,000) and to CFDA 93.575 Child Care Development Block Grant (\$15,000,000).

3. Supplemental Nutrition Assistance Program

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

4. Recovery Act Funding of Supplemental Nutrition Assistance Program Benefits

The reported expenditures for benefits under the Supplemental Nutrition Assistance Program (SNAP) (CFDA No. 10.551) are supported by both regular appropriated funds and incremental funding made available under section 101 of the American Recovery and Reinvestment Act of 2009. The portion of total expenditures for SNAP benefits that is supported by Recovery Act funds varies according to fluctuations in the cost of the Thrifty Food Plan, and to changes in participating households' income, deductions, and assets. This condition prevents USDA from obtaining the regular and Recovery Act components of SNAP benefits expenditures through normal program reporting processes. As an alternative, USDA has computed a weighted average percentage to be applied to the national aggregate SNAP benefits provided to household in order to allocate an appropriate portion thereof to Recovery Act funds. This methodology generates valid results at the national aggregate level but not at the individual State level. Therefore, we cannot validly disaggregate the regular and Recovery Act components of our reported expenditures for SNAP benefits. At the national aggregate level, however, Recovery Act funds account for 0.64 percent of USDA's total expenditures for SNAP benefits in the Federal fiscal year ended September 30, 2014.

PART II

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



A Hawaii Limited Liability Partnership

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

Independent Auditor's Report

Office of the Auditor
State of Hawaii

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Department of Human Services of the State of Hawaii (DHS), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the DHS's basic financial statements, and have issued our report thereon dated March 11, 2016.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the DHS's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying *Schedule of Findings and Questioned Costs* as items 2015-01 through 2015-24.

The DHS's Response to Findings

The DHS's responses to the findings identified in our audit are described in the accompanying *Schedule of Findings and Questioned Costs*. The DHS's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 11, 2016

PART III

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-33



A Hawaii Limited Liability Partnership

**Report on Compliance for Each Major Federal Program and Report on
Internal Control Over Compliance Required by OMB Circular A-133**

Independent Auditor's Report

Office of the Auditor
State of Hawaii:

Report on Compliance for Each Major Federal Program

We have audited the Department of Human Services of the State of Hawaii's (DHS) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the DHS's major federal programs for the year ended June 30, 2015. The DHS's major federal programs are identified in the summary of the auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the DHS's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the DHS's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

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

As described in Findings 2015-01 through 2015-22 in the accompanying *Schedule of Findings and Questioned Costs*, the DHS did not comply with requirements regarding the following:

Finding #	CFDA #	Program (or Cluster) Name	Compliance Requirement
2015-01	93.778	Medical Assistance Program	Eligibility
2015-02	93.778	Medical Assistance Program	Procurement, suspension and debarment
2015-03	93.778	Medical Assistance Program	Special tests and provision – Utilization control and program integrity
2015-04	84.126	Vocational Rehabilitation	Allowable costs
2015-05	84.126	Vocational Rehabilitation	Eligibility
2015-06	84.126	Vocational Rehabilitation	Procurement, suspension and debarment
2015-07	84.126	Vocational Rehabilitation	Reporting
2015-08	84.126	Vocational Rehabilitation	Special tests and provisions – Completion of IPEs
2015-09	93.575, 93.596	CCDF Cluster	Reporting
2015-10	93.667	Social Services Block Grant	Reporting
2015-11	93.667	Social Services Block Grant	Earmarking
2015-12	93.659	Adoption Assistance	Activities allowed & allowable costs
2015-13	93.558	Temporary Assistance for Needy Families	Eligibility
2015-14	93.558	Temporary Assistance for Needy Families	Procurement, suspension and debarment
2015-15	93.558	Temporary Assistance for Needy Families	Reporting
2015-16	93.558	Temporary Assistance for Needy Families	Reporting
2015-17	93.558	Temporary Assistance for Needy Families	Special tests and provisions – child support non-cooperation
2015-18	93.558	Temporary Assistance for Needy Families	Special tests and provisions – Penalty for failure to comply with work verification plan
2015-19	93.568	Low Income Home Energy Assistance	Eligibility
2015-20	15.875	Economic, Social, and Political Development of the Territories	Eligibility

Finding #	CFDA #	Program Name	Compliance Requirement
2015-21	15.875	Economic, Social, and Political Development of the Territories	Reporting
2015-22	10.551, 10.561	SNAP Cluster	Special tests and provisions – EBT Card Security

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

Qualified Opinion on the Major Federal Programs in the Table Above

In our opinion, except for the noncompliance described in Basis for Qualified Opinion paragraphs, the DHS complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Medicaid Cluster, Vocational Rehabilitation, CCDF Cluster, Social Services Block Grant, Adoption Assistance, Temporary Assistance for Needy Families, Low Income Home Energy Assistance, Economic, Social, and Political Development of the Territories, and SNAP Cluster for the year ended June 30, 2015.

Unmodified Opinion on Each of the Other Major Federal Program

In our opinion, the DHS complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal 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, 2015.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2015-23 through 2015-24. Our opinion on this major federal program is not modified with respect to this matter.

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

Report on Internal Control Over Compliance

Management of the DHS is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the DHS's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the DHS's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified 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 combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2015-01 through 2015-22 to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or 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 2015-25 to be a significant deficiency.

The DHS's responses to the internal control over compliance findings identified in our audit are described in the accompanying *Schedule of Findings and Questioned Costs*. The DHS's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on these responses.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

KMH LLP

KMH LLP

Honolulu, Hawaii

March 11, 2016

PART IV

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs
June 30, 2015

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

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

Type of auditor’s report issued on compliance for major federal programs: Qualified for all major programs except for Children’s Health Insurance Program, which was unmodified.

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

Yes No

Department of Human Services State of Hawaii

Schedule of Findings and Questioned Costs (continued)
June 30, 2015

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.551, 10.561	SNAP Cluster
15.875	Economic, Social, and Political Development of the Territories
84.126	Vocational Rehabilitation
93.558	Temporary Assistance for Needy Families
93.568	Low Income Home Energy Assistance
93.575, 93.596	Child Care and Development Fund (CCDF) Cluster
93.659	Adoption Assistance
93.667	Social Services Block Grant
93.767	Children's Health Insurance Program
93.777, 93.778	Medicaid Cluster

Dollar threshold used to distinguish between type A and type B programs: \$6,181,140

Auditee qualified as low-risk auditee? Yes No

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2015

Section II – Financial Statement Findings

No matters were reported.

Department of Human Services State of Hawaii

Schedule of Findings and Questioned Costs (continued)
June 30, 2015

Section III – Federal Award Findings and Questioned Costs

Finding No.: 2015-01 Complete Eligibility Applications and Annual Eligibility Re-Verifications in a Timely Manner

Federal Agency: U.S Department of Health and Human Services
CFDA No.: 93.778
Program: Medical Assistance Program
Requirement: Eligibility
Type of Finding: Non-Compliance and Material Weakness

Criteria: Title 42 CFR Part 435.911 requires the timely determination of eligibility of individuals who apply for Medicaid benefits within 1) Ninety days for applicants who apply for Medicaid on the basis of disability, and 2) forty five days for all other applicants. In addition, Title 42 CFR Part 435.916 requires annual re-verifications of participant eligibility.

Condition, cause and context: During our audit, we noted the following:

There were 72,982 initial applications received during fiscal year 2015. At the end of each month, there was an average of approximately 1,952 Modified Adjusted Gross Income (MAGI) applications and 172 Non-MAGI applications for which eligibility was not determined in a timely manner. As of the end of the fiscal year, the Department was able to reduce the number of outstanding applications for which eligibility was not determined in a timely manner to 778 MAGI and 24 Non-MAGI applications. Additionally, there were 359,788 renewals processed during fiscal year 2015. As of the end of the fiscal year, renewals which were submitted and not reverified within 12 months could not be determined due to the fact that the KOLEA system did not have an established report to track this information.

Effect: The backlog of applications pending eligibility determinations and overdue annual re-verifications increases the risk that ineligible recipients may continue to receive benefits or that eligible applicants may not receive benefits in a timely manner.

Questioned costs: None

Department of Human Services State of Hawaii

Schedule of Findings and Questioned Costs (continued)

June 30, 2015

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

Finding No.: 2015-01 Complete Eligibility Applications and Annual Eligibility Re-Verifications in a Timely Manner (continued)

Recommendations: We recommend the Department continue to assess the staffing requirements at the Eligibility Branch as well as reviewing its procedures over prioritizing applicants/participants to ensure that the backlog of applications pending eligibility determinations and annual re-verifications is eliminated. We also recommend adding the renewal determination timeliness capability to the KOLEA system to enable monitoring over the process.

Corrective Action Taken or Planned: The Med-QUEST Division (MQD) continues to work with existing staff and continues to make significant improvement in this area. The Department has requested funding from the State Legislature for a contractor to conduct an assessment and recommend changes in processes to increase efficiencies with current staff as well as provide recommendations on staffing requirements to address the workload and responsibilities with the implementation of the new eligibility system.

Effective October 1, 2014, all MAGI and non-MAGI annual re-verifications (ER) became passively renewed. This means that all households are sent out annual verification forms to complete and return reporting any changes in circumstance. KOLEA has been programmed to process and redetermine eligibility based on information provided on the returned form. If no ER form is returned, KOLEA automatically redetermines eligibility by the eligibility due date based on information on record in the system. Therefore eligibility is being re-determined for all cases annually in a more timely manner. This will reduce the overall number of delinquent ERs.

In addition, scanning all documents, that includes applications and ER forms, became operational on January 19, 2015. This has expedited the processing of paper applications, supporting forms, and change of circumstance documents into the KOLEA system to facilitate eligibility determinations and re-determinations by eligibility workers.

End Date: On-going

Responding Person: Leslie K. Tawata, Med-QUEST Division Assistant Administrator, (808) 692-8052 and Alan Takahashi, Eligibility Branch Administrator, (808) 587-7291

Department of Human Services

State of Hawaii

Schedule of Findings and Questioned Costs (continued)
June 30, 2015

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

Finding No.: 2015-02 Procurement, Suspension and Debarment

Federal Agency: U.S Department of Health and Human Services
CFDA No.: 93.778
Program: Medical Assistance Program
Requirement: Procurement, Suspension and Debarment
Type of Finding: Non-Compliance and Material Weakness

Criteria: In accordance with Office of Management and Budget (OMB) 2 CFR 180.300, when a non-Federal entity enters into a covered transaction with an entity at a lower tier, the non-Federal entity must verify that the entity and its principals are not suspended or debarred or otherwise excluded from participating in the transaction by checking the Excluded Parties List System (EPLS), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity.

Condition, cause, and context: We selected 2 out of 3 new or renewed contracts procured in the current year and noted that the Department did not verify that the 2 procured vendors were not suspended or debarred from Federal contracts. Program management asserted that they were not aware of the requirement to verify that the subrecipient was not suspended or debarred or otherwise excluded from Federal contracts. We searched the EPLS and verified that the procured vendors tested were not suspended or debarred.

Effect: Failure to properly verify that the contracting agency is not an excluded party could result in payments to excluded parties.

Questioned costs: None

Recommendation: We recommend the Department develop policies and procedures to ensure compliance with the requirement.

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2015

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

Finding No.: 2015-02 Procurement, Suspension and Debarment (continued)

Corrective Action Taken or Planned: The Division, through its Procurement Specialist, has already initiated the process to check the EPLS, prior to execution of contracts. In addition, the Division has also included language in our Request for Proposals regarding the requirement for verification against the EPLS.

End Date: Completed

Responding Person: Leslie K. Tawata, Med-QUEST Division Assistant Administrator, (808) 692-8052

Department of Human Services State of Hawaii

Schedule of Findings and Questioned Costs (continued)
June 30, 2015

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

Finding No.: 2015-03 Improve Controls over Utilization, Fraud and Accuracy of Medicaid Claims

Federal Agency: U.S Department of Health and Human Services
CFDA No.: 93.778
Program: Medical Assistance Program
Requirement: Special Tests and Provisions – Utilization Control and Program Integrity
Type of Finding: Non-Compliance and Material Weakness

Criteria: Title 42 CFR Part 456 Subpart A requires statewide program of control of the utilization of all Medicaid services. In addition, Title 42 CFR 456.23 requires a post payment review process that allows State personnel to review recipient utilization and provider service profiles and exception criteria to identify and correct misutilization practices of recipients and providers.

Condition, cause and context: The development and administration of the State's Medicaid Assistance Program (MAP) is the responsibility of the Med Quest Division (MQD). The Department information retrieval and non drug claims processing system is the Hawaii Prepaid Medical Management Information System (HPMMIS) which is operated and maintained by the Arizona Health Care Cost Containment System (AHCCCS). In addition, the management and processing of the Department's pharmacy benefits is contracted to Xerox.

Due to the complexity of the Medicaid program operations and the large volume of transactions, much reliance is placed on HPMMIS and its system of internal controls to accurately maintain enrollment and participant data and to ensure Medicaid costs are allowable, properly coded and accurately paid.

We noted the Department was not compliant with the requirement due to the Department not completing a post-payment review and monitoring of Xerox, its pharmacy benefits manager (PBM) for over ten years. The previous report issued by an independent healthcare auditing and consulting company recommended the need to explore additional edits, analysis, and reporting in order to expand anti-fraud efforts. The Department has created a pharmacist position to fulfill this function, however, this position is vacant.

Effect: Failure to implement a fully functioning post-payment review process resulted in non-compliance with the requirement. Further, there is a risk that the Department is failing to identify and correct misutilization practices and identify potential fraud.

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2015

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

Finding No.: 2015-03 Improve Controls over Utilization, Fraud and Accuracy of Medicaid Claims (continued)

Questioned costs: None

Recommendations: The Department should continue its effort to fill the vacant pharmacy position to conduct regular post payment reviews on a sample of drug and non-drug claims to detect processing errors and identify ways to improve the claims processing system and procedures. The Payment Error Rate Measurement conducted by Centers for Medicare and Medicaid Services is an example of a post payment review.

Corrective Action Taken or Planned: The Department filled a part-time Pharmacist position effective February 4, 2016. One of the first duties of the position will be to begin post payment reviews of claims data and to work with the Program Integrity staff in the Finance Office, Xerox, and the health plans' pharmacy benefits managers to detect processing errors.

End Date: On-going

Responding Person: Leslie K. Tawata, Med-QUEST Division Assistant Administrator, (808) 692-8052

Department of Human Services

State of Hawaii

Schedule of Findings and Questioned Costs (continued)
June 30, 2015

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

Finding No.: 2015-04 Allowable Costs Under Individualized Plans for Employment

Federal Agency: U.S Department of Education
CFDA No.: 84.126
Program: Vocational Rehabilitation
Requirement: Allowable Costs
Type of Finding: Non-Compliance and Material Weakness

Criteria: In accordance with 29 USC Section 723(a), vocational rehabilitation services provided under this subchapter are any services described in an individualized plan for employment developed for the individual. All services listed in the participant's individualized plan for employment are considered to be allowable activities. Section (b)(2)C states that an individualized plan for employment shall be (i) agreed to, and signed by, such eligible individual or, as appropriate, the individual's representative; and (ii) approved and signed by a qualified vocational rehabilitation counselor employed by the designated State unit.

The individualized plan for employment is developed with the input from the counselor and the participant, and entered into the Akamai system. Upon agreement of the individualized plan for employment, the counselor will print and both the counselor and the participant will sign in agreement. Revisions to the individualized plan for employment are done on an as needed basis, and are also agreed to and signed by the counselor and the participant.

Condition, cause and context: Out of 60 payments we tested, we noted 4 payments for services that were not listed in the related participant's signed individualized plan for employment resulting in the overpayment of benefits of \$11,670. We also noted 4 individualized plans for employment which were not signed by the counselor, participant or both parties, resulting in the overpayment of benefits of \$494.

The Department's policies and procedures allow for revision to the individualized plan for employment as necessary, however, personnel handling the cases of these individuals were not diligent in obtaining revised individualized plans signed by the counselor and the participant.

Effect: Failure to follow the policies and procedures resulted in questioned costs and non-compliance with the program requirements.

Questioned Costs: \$12,164

**Department of Human Services
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Schedule of Findings and Questioned Costs (continued)
June 30, 2015

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

**Finding No.: 2015-04 Allowable Costs Under Individualized Plans for Employment
(continued)**

Recommendations: Department personnel should be more diligent in complying with the policies and procedures in place.

Corrective Action Taken or Planned: The following procedures are being implemented to ensure that the Division of Vocational Rehabilitation employees meet agency standards regarding Individualized Plan for Employment (IPE) completion:

1. An Internal Communication Form (ICF) outlining the Division's requirement for a signed plan will be issued to all Vocational Rehabilitation Specialists (VRS) at all levels in April 2016.
2. All Branch Administrators will meet with their VRS to ensure that they understand the ICF and commit to following the established and written procedures. They will be instructed to check all current cases.
3. The April 2016 and October 2016 case review results will indicate that compliance to the ICF has been achieved.

End Date: October 2016

Responding Person: Albert Perez, Division of Vocational Rehabilitation Administrator, (808) 586-9741

Department of Human Services State of Hawaii

Schedule of Findings and Questioned Costs (continued)
June 30, 2015

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

Finding No.: 2015-05 Complete Eligibility Determinations in a Timely Manner

Federal Agency: U.S Department of Education
CFDA No.: 84.126
Program: Vocational Rehabilitation
Requirement: Eligibility
Type of Finding: Non-Compliance and Material Weakness

Criteria: In accordance with 29 USC 722(a)(6), the Department must determine whether an individual is eligible for Vocational Rehabilitation services within a reasonable period of time, not to exceed 60 days, after the individual has submitted an application for services, unless exceptional and unforeseen circumstances exist beyond the Department's control and the Department and the applicant agree to a specific extension of time.

Condition, cause and context: The Department did not always follow its policies and procedures to document a specific extension of time signed by both the counselor and applicant. Specifically, for 13 out of 60 applications tested, the Department did not obtain a signed extension letter with the applicant for eligibility determinations. We also noted a case closure made outside of the 60 day period.

To ensure compliance with the timely eligibility determination requirement, the Department provides each counselor on a monthly basis, a list of the counselor's assigned outstanding cases. The counselors are instructed to prioritize cases that are close to the 60 day eligibility deadline. The Department has stated that lack of diligence is the primary cause of these errors.

Effect: Failure to make eligibility determinations in a timely manner may result in delay of services provided.

Questioned Costs: None

Recommendations: Department personnel should be more diligent in complying with the policies and procedures in place. The Department should also provide adequate supervision of its caseworkers and enforce its policies and procedures to help ensure compliance with eligibility requirements.

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2015

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

Finding No.: 2015-05 Complete Eligibility Determinations in a Timely Manner (continued)

Corrective Action Taken or Planned: The following procedures are being implemented to ensure that the Division of Vocational Rehabilitation employees meet agency standards regarding Certification of Eligibility completion:

1. Check to make sure that every referral that is moved into Application Status is recorded in our tracking system, AWARE.
2. Every case in Application Status will be reviewed after 15 days, 30 days, and 45 days by the Supervisor. AWARE will be set up to provide a “to do list” for each Vocational Rehabilitation Specialist (VRS) which alerts the VRS of the upcoming due date for eligibility completion.
3. At monthly staff meetings, the VR Supervisor will review the application status for the branch/section.
4. Each VRS will be required to bring a printout of their cases in application status to each staff meeting so VRS can see where they are in relation to the Section/Branch to reach their “team” goal.
5. Supervisor will encourage feedback and sharing at the staff meeting to assist each VRS in meeting the individual and team goal.
6. Supervisor will have individual meeting with the VRS when a case is at 30 day status.
7. Once the case reaches 45 Days in Application Status, a decision will be made by the Supervisor on one of the following four (4) actions:
 - Move the case into Eligible Status
 - Move the case into Trial Work Status
 - Move the case into closed Status (provide justification)
 - Obtain 60-Day Waiver from the client (provide justification)
8. Supervisor will ensure that decision is understood by VRS. Supervisor will ensure that VRS implements action plan.

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State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2015

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

Finding No.: 2015-05 Complete Eligibility Determinations in a Timely Manner (continued)

9. Supervisor will report to Branch Administrator on a monthly basis on the status of meeting the 60-Day Eligibility Requirement. Branch Administrators will report to DVRA on a monthly basis.

End Date: October 2016

Responding Person: Albert Perez, Division of Vocational Rehabilitation Administrator, (808) 586-9741

Department of Human Services State of Hawaii

Schedule of Findings and Questioned Costs (continued)
June 30, 2015

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

Finding No.: 2015-06 Procurement, Suspension and Debarment

Federal Agency: U.S Department of Education
CFDA No.: 84.126
Program: Vocational Rehabilitation
Requirement: Procurement, Suspension and Debarment
Type of Finding: Non-Compliance and Material Weakness

Criteria: In accordance with Office of Management and Budget (OMB) 2 CFR 180.300, when a non-Federal entity enters into a covered transaction with an entity at a lower tier, the non-Federal entity must verify that the entity and its principals are not suspended or debarred or otherwise excluded from participating in the transaction by checking the Excluded Parties List System (EPLS), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity.

Condition, cause and context: We selected 6 of 13 new or renewed contracts procured in the current year for testing and noted that the Department did not verify that the 6 procured vendors were not suspended or debarred from Federal contracts, prior to entering into the covered transaction. Although the Department was aware of the requirement, we noted that the policies and procedures to ensure compliance with the procurement requirement were put into place near the end of the current fiscal year. Given the timing in which the policies and procedures were established, the Department was unable to comply with the requirement for the current fiscal year. We searched the EPLS and verified that the procured vendors tested were not suspended or debarred.

Effect: Failure to properly verify that the contracting agency is not an excluded party could result in payments to excluded parties.

Questioned Costs: None

Recommendations: We recommend the Department comply with its policies and procedures in place to ensure compliance with the requirement.

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2015

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

Finding No.: 2015-06 Procurement, Suspension and Debarment (continued)

Corrective Action Taken or Planned: The Department will continue to comply with its Suspension and Debarment Policy to ensure compliance with the requirement. The six (6) contracts that were tested for this audit were awarded and executed in 2014, prior to the implementation of DVR's policy that took effect January 1, 2015. A Suspension and Debarment check was completed for these contracts in May 2015 as part of the annual monitoring activities.

End Date: Completed

Responding Person: Susan Foard, Division of Vocational Rehabilitation Assistant Administrator, (808) 586-9740

Department of Human Services

State of Hawaii

Schedule of Findings and Questioned Costs (continued)
June 30, 2015

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

Finding No.: 2015-07 Performance Reporting

Federal Agency: U.S Department of Education
CFDA No.: 84.126
Program: Vocational Rehabilitation
Requirement: Reporting
Type of Finding: Non-Compliance and Material Weakness

Criteria: 34 CFR 361.40(a) requires the State plan to assure that the designated State agency will submit reports, (1) in the form and level of detail and at the time required by the Secretary regarding applicants for and eligible individuals receiving services under this part; and (2) in a manner that provides a complete count of the applicants and eligible individuals to - (i) permit the greatest possible cross-classification of data; and (ii) protect the confidentiality of the identity of each individual. (b) The designated State agency must comply with any requirements necessary to ensure the accuracy and verification of those reports.

Section 101(a)(10) of the Rehabilitation Act requires the State agency to capture a variety of demographic and other data for each individual whose service record is closed during the fiscal year. This data report is submitted to the Rehabilitation Services Administration (RSA) through the RSA-911.

Condition, cause and context: The RSA-911 is a data report compiled from the AWARE information system. The counselors enter client information from their client's case files into the AWARE system, and are responsible for ensuring that the client's information is updated properly. We selected 60 items to test for the data report, and noted the following:

- 44 reported cases where a significant date (i.e. application date, eligibility or ineligibility determination date, IPE start date, etc.) on the RSA-911 data extract did not agree to the respective date recorded in the case file.
- 28 reported cases where the date of the Individualized Plan of Employment (IPE) and the start date of employment per the RSA-911 data extract did not agree to the date per the signed IPE or case closure form in the respective case file.
- 2 reported cases where the employment start date per the RSA-911 extract did not agree to the employment start date per the 'Case Closure Information Form'.
- 1 reported case where the 'Significance of Disability' per the RSA-911 data extract did not agree to the designation per the eligibility information form.

**Department of Human Services
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Schedule of Findings and Questioned Costs (continued)
June 30, 2015

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

Finding No.: 2015-07 Performance Reporting (continued)

- 6 reported cases where the type of closure per the RSA-911 data extract did not agree to the type of closure indicated on the case closure form.

Based on discussions with the Department, these errors were due to a misunderstanding of the required items or data entry errors from the counselors, data conversion errors, or insufficient supporting documentation in the case file.

Effect: Failure to accurately prepare the required report resulted in non-compliance with the Federal requirements.

Questioned Costs: None

Recommendations: The Department should be more diligent in complying with the policies and procedures in place. The Department should also provide adequate training and supervision of its counselors to ensure accuracy of the reports to comply with the Federal requirements.

Corrective Action Taken or Planned: The following procedures are being implemented to ensure that the Division of Vocational Rehabilitation employees meet agency standards regarding reporting:

1. Changing AWARE parameters to ensure accuracy of the reports.
2. Revising procedures to include the changes made in AWARE.
3. Provide training and supervision of clerical and Vocational Rehabilitation Specialists (VRS) to ensure accurate inputting and changes in procedure due to changing AWARE parameters.

End Date: August 2016

Responding Person: Albert Perez, Division of Vocational Rehabilitation Administrator, (808) 586-9741

Department of Human Services State of Hawaii

Schedule of Findings and Questioned Costs (continued)
June 30, 2015

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

Finding No.: 2015-08 Complete Individualized Plan for Employment in a Timely Manner

Federal Agency: U.S Department of Education
CFDA No.: 84.126
Program: Vocational Rehabilitation
Requirement: Special Tests and provisions – Completion of IPEs
Type of Finding: Non-Compliance and Material Weakness

Criteria: 29 USC 722(b)(3)(F) states that the individualized plan for employment (IPE) shall be developed as soon as possible, but not later than a deadline of 90 days after the date of the determination of eligibility, unless the designated State unit and the eligible individual agree to an extension of that deadline to a specific date by which the individualized plan for employment shall be completed. Section (2)(C) requires that an individualized plan for employment shall be (i) agreed to, and signed by, such eligible individual or, as appropriate, the individual's representative; and (ii) approved and signed by a qualified vocational rehabilitation counselor employed by the designated State unit.

Condition, cause and context: The Department did not always follow its policies and procedures over the development and completion of IPEs. We selected 60 cases for testing and noted the following:

- 18 instances where the Department did not complete, within the 90 day period, an IPE or perform a case closure without obtaining a signed extension letter with the applicant.
- 4 instances where the IPE was not signed by the counselor, client or both parties, which resulted in an overpayment of benefits of \$494 for the year.

Effect: Failure to properly complete the IPE in a timely manner may result in the delay of services provided or unallowable costs being charged to the Federal grant.

Questioned Costs: \$494

Recommendations: The Department should be more diligent in complying with the policies and procedures in place in order to ensure compliance with the Federal requirements.

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2015

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

Finding No.: 2015-08 Complete Individualized Plan for Employment in a Timely Manner (continued)

Corrective Action Taken or Planned: The following procedures are being implemented to ensure that the Division of Vocational Rehabilitation employees meet agency standards regarding timely completion of Individualized Plan for Employment (IPE):

1. Every case that is eligible will be recorded in our tracking system, AWARE.
2. Every case in Eligible Status will be reviewed after 30 days, 45 days, and 60 days by the Supervisor. AWARE will be set up to provide a “to do list” for each Vocational Rehabilitation Specialist (VRS) which alerts the VRS of the upcoming due date for Individualized Plan for Employment (IPE) completion.
3. At monthly staff meetings, the VR Supervisor will review the eligibility status for the branch/section.
4. Each VRS will be required to bring a printout of their cases in eligibility status to each staff meeting so VRS can see where they are in relation to the Section/Branch to reach their “team” goal.
5. Supervisor will encourage feedback and sharing at the staff meeting to assist each VRS in meeting the individual and team goal.
6. Supervisor will have individual meeting with VRS when a case is at the 60 day Eligibility Status.
7. Once the case reaches 60 days in Eligibility Status, VRS will need to report to Supervisor their action plan for following one of the following three (3) actions:
 - Complete IPE (give date of meeting)
 - Obtain 90-Day Waiver from the client (provide justification and date of meeting)
 - Move the case into Closed Status (provide justification)
8. Supervisor will ensure that decision is understood by VRS. Supervisor will ensure that VRS implements action plan.

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State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2015

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

**Finding No.: 2015-08 Complete Individualized Plan for Employment in a Timely Manner
(continued)**

9. Supervisor will report to Branch Administrator (BA) on a monthly basis on the status of meeting the 90-Day IPE Requirement. BA's will report to VRA on a monthly basis.

End Date: October 2016

Responding Person: Albert Perez, Division of Vocational Rehabilitation Administrator, (808) 586-9741

Department of Human Services State of Hawaii

Schedule of Findings and Questioned Costs (continued)
June 30, 2015

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

Finding No.: 2015-09 Federal Funding Accountability and Transparency Act (FFATA) Reporting

Federal Agency: U.S. Department of Health and Human Services
CFDA No.: 93.575 and 93.596
Program: Child Care and Development Fund (CCDF) Cluster
Requirement: Reporting
Type of Finding: Non-Compliance and Material Weakness

Criteria: 2 CFR Part 170 requires an entity to report each action that obligates \$25,000 or more in federal funds for a subaward to an entity. This information is to be reported no later than the end of the month following the month in which the obligation was made.

Condition, cause and context: The Department indicated that they did not comply with the FFATA reporting requirements for all subawards. The Department was aware of the requirement but due to miscommunication with Fiscal Management Office (FMO) regarding the responsibilities of reporting, reports were not submitted in the required time frame. The finding was also noted in prior year finding 2014-08.

Effect: The Department did not comply with the FFATA reporting requirements.

Questioned costs: None

Recommendation: We recommend the Department develop and implement procedures to ensure that required FFATA reports are submitted in a timely manner.

Corrective Action Taken or Planned: The Benefit, Employment, and Support Services Division (BESSD) has issued instructions to Program Offices that conduct procurements to enter the contract award via the FFATA Sub-Award Reporting System (FSRS) within 30 days of obligating the contract funding. The FSRS record entry will be printed out and filed in the contract folder for verification.

End Date: Completed

Responding Person: Scott Nakasone, Acting Benefit, Employment, and Support Services Division Administrator, (808) 586-7054

Department of Human Services State of Hawaii

Schedule of Findings and Questioned Costs (continued)
June 30, 2015

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

**Finding No.: 2015-10 Federal Funding Accountability and Transparency Act (FFATA)
Reporting**

Federal Agency: U.S Department of Health and Human Services
CFDA No.: 93.667
Program: Social Services Block Grant
Requirement: Reporting
Type of Finding: Non-Compliance and Material Weakness

Criteria: 2 CFR Part 170 requires an entity to report each action that obligates \$25,000 or more in federal funds for a subaward to an entity. This information is to be reported no later than the end of the month following the month in which the obligation was made.

Condition, cause and context: The Department indicated that they did not comply with the FFATA reporting requirements for all subawards. The Department was aware of the FFATA reporting requirements, however due to miscommunication within the members of management regarding the responsibilities of reporting, no reports were submitted.

Effect: The Department did not comply with the FFATA reporting requirements.

Questioned Costs: None

Recommendations: We recommend the Department develop and implement procedures to ensure appropriate communication between the program and Fiscal Management Office so that the required FFATA reports are submitted timely.

**Department of Human Services
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Schedule of Findings and Questioned Costs (continued)
June 30, 2015

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

**Finding No.: 2015-10 Federal Funding Accountability and Transparency Act (FFATA)
Reporting (continued)**

Corrective Action Taken or Planned: The following procedures are being implemented to ensure that the Social Services Division appropriately communicates with the Fiscal Management Office so the required FFATA reports are submitted timely:

1. Federal sub-award amounts subject to FFATA requirements (at least \$25,000) will be identified in the Purchase of Services Contracts log by the Support Services Office Administrator (SSOA) or her designee, and entered into the FFATA website each month no later than the end of the month following the month in which the obligation was made.
2. The SSOA will review FFATA to ensure that the list of sub-awards were entered into the FFATA website on timely basis.

End Date: March 31, 2016

Responding Person: Lucy Pascual, Support Services Office Administrator, (808) 586-5519

Department of Human Services State of Hawaii

Schedule of Findings and Questioned Costs (continued)
June 30, 2015

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

Finding No.: 2015-11 Tracking Earmarked Funds

Federal Agency: U.S Department of Health and Human Services
CFDA No.: 93.667
Program: Social Services Block Grant
Requirement: Earmarking
Type of Finding: Non-Compliance and Material Weakness

Criteria: 42 USC 604(d)(3)(A) and 9902(2) requires an entity to use all of the amount transferred in from the Temporary Assistance for Needy Families (TANF) (CDFA 93.558) program to provides services to children or their families whose income is less than 200 percent of the official poverty guideline as revised annually by U.S. Department of Health and Human Services.

The Social Services Block Grant (SSBG) program receives transfers of funds from the TANF program to provide benefits to participants subject to the aforementioned income requirement. The SSBG program allocates portions of the TANF fund to its subrecipients through contracts during the budgeting process. During the year, the participants are required to self-report their income information to the subrecipients. The subrecipients compile the information pertaining to the number of TANF and non-TANF clients they serve, and for each contract, submit this information to the Department on a monthly basis, known as the “Client Eligibility List” (CEL). Quarterly, the SSBG program reviews the subrecipient’s client base to ensure that the contract funding is in compliance with the earmarking requirement. In the event of non-compliance, the SSBG program will re-allocate the TANF funds between subrecipient contracts to remain in compliance with the earmarking requirement.

Condition, cause and context: We selected 4 out of 14 subrecipient contracts for testing, and noted that the Department had not prepared or reviewed the TANF Earmarking calculation to ensure compliance with the earmarking requirements. Subsequent to our inquiry, the Department performed the calculations, and noted 1 out of the 4 subrecipient contracts was not in compliance with the earmarking requirements, which resulted in the over-allocation of \$448,017 of TANF funds. Although the Department has policies and procedures in place to ensure compliance with the Federal requirements, the Department did not adhere to them.

Effect: Failure to follow the policies and procedures resulted in non-compliance with the Federal requirements and questioned costs.

Department of Human Services State of Hawaii

Schedule of Findings and Questioned Costs (continued)
June 30, 2015

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

Finding No.: 2015-11 Tracking Earmarked Funds (continued)

Questioned Costs: \$448,017

Recommendations: We recommend the Department adhere to its established policies and procedures to ensure that TANF funds are spent in accordance with the requirements.

Corrective Action Taken or Planned: The Support Services Office Administrator (SSOA) will oversee that the policies and procedures ensuring that TANF funds are spent according to requirements by implementing the following actions:

1. Send written reminders to subrecipients receiving TANF funds regarding Division policies and procedures as well as forms for TANF funding. Inform subrecipients that these forms must be completed by all clients receiving TANF-funded services and submitted with their monthly programmatic reports. Also inform subrecipients to use a dedicated email to submit monthly reports. (March 2016)
2. Conduct TANF required in-person training for all TANF-funded subrecipients to "refresh" their knowledge of TANF policies and procedures, forms, contract requirements, etc. (April 2016)
3. The Purchase of Services Specialists will monitor the monthly Client Eligibility Lists submitted by subrecipients to verify completeness, accuracy, and the number of TANF and non-TANF clients to ensure compliance with the earmarking requirement. (On-going)
4. Every quarter, the administrative and program support staff will review the subrecipients client base to ensure that the contract funding is in compliance with the earmarking requirement. If a subrecipient is not in compliance, the TANF funds will be reallocated to subrecipients who are. (On-going)
5. The SSOA will oversee that this monitoring is being conducted and will audit the contracts on a semi-annual basis. (On-going)

End Date: On-going

Responding Person: Lucy Pascual, Support Services Office Administrator, (808) 586-5519

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2015

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

Finding No.: 2015-12 Proper Determination of Benefit Amount

Federal Agency: U.S. Department of Health and Human Services
CFDA No.: 93.659
Program: Adoption Assistance
Requirement: Activities Allowed & Allowable Costs
Type of Finding: Non -Compliance and Material Weakness

Criteria: 42 USC 673(a)(3) states that the amount of the payments to be made in any case under clauses (i) and (ii) of paragraph (1)(B) shall be determined through agreement between the adoptive parents and the State or local agency administering the program under this section, which shall take into consideration the circumstances of the adopting parents and the needs of the child being adopted, and may be readjusted periodically, with the concurrence of the adopting parents (which may be specified in the adoption assistance agreement), depending upon changes in such circumstances.

Program participant benefit payments are governed by a signed “Adoption Assistance Agreement” (Agreement). This Agreement outlines the terms and conditions for the participants and the Department, and includes the total amount of benefit payments. Benefit payments under the Agreement may be further supplemented due to difficulties in caring for a child as determined by a caseworker on an as needed basis and documented on the “Difficulty of Care” (DOC) worksheet. In the event of an increase or decrease to the amount of the DOC subsidy, the caseworkers are required to execute a revised Agreement.

Condition, cause and context: During our audit, we selected 60 cases for testing and noted the following:

- 3 instances where the Agreement was not revised after a change to the amount of the benefit payment resulting in an overpayment of benefits of \$1,076 per month, or \$12,912 for the year.
- 2 instances where the DOC worksheet was missing, resulting in an overpayment of benefits of \$791 per month, or \$9,492 for the year.
- 1 instance where the amount per the Agreement was less than the benefit payment due to a data entry error for the supplemental subsidy, resulting in an underpayment of benefits of \$84 per month, or \$336 for the year.

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2015

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

Finding No.: 2015-12 Proper Determination of Benefit Amount (continued)

Although the Department has policies and procedures in place to ensure the proper support for the monthly adoption assistance payment is maintained, calculated, and authorized, there was a lack of diligence in complying with the policies and procedures.

Effect: Failure to properly document and maintain the support for the Adoption Assistance subsidy payments resulted in non-compliance with the Federal requirements and questioned costs.

Questioned Costs: \$22,404

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

Corrective Action Taken or Planned: The Child Welfare Services Administrator will ensure that the policies and procedures for adoption assistance payment are followed and adhered to with the following actions:

1. Child Welfare Services (CWS) Administrator or her designee will issue an internal communication to all staff, specifying:
 - a. Staff member ensures that the written Adoption Assistance Agreement is accurately updated, when adding DOC;
 - b. Staff member ensures that completed DOC paperwork is present in the physical case file, when initiating or adding DOC amount to Adoption Assistance payments;
 - c. Upon initiation and/or modification to Adoption Assistance payments in the CWS database, staff member double checks that the amount in the database matches the amount in the paperwork; and
 - d. Supervisors must check all of the above, prior to authorizing payments in the database.
2. A screen will be added in the database that requires the CWS staff to indicate that he/she has completed the items above (1a, 1b, and 1c), prior to initiating and/or modifying an Adoption Assistance payment. Supervisors must also verify that they have checked all required information prior to authorizing payment.

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2015

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

Finding No.: 2015-12 Proper Determination of Benefit Amount (continued)

3. CWS Section Administrators will review the Adoption Assistance payment cases quarterly to ensure compliance by their staff.
4. The errors found and the related corrective action steps proposed above will be reviewed by CWS Section Administrators statewide to develop other corrective actions and identify improvements to the plan.

End Date: July 1, 2016

Responding Person: Rachel Thorburn, Acting Child Welfare Services Program Development Administrator, (808) 586-5675

Department of Human Services State of Hawaii

Schedule of Findings and Questioned Costs (continued)
June 30, 2015

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

Finding No.: 2015-13 Maintaining Proper Case Documentation to Support Eligibility Determinations

Federal Agency: U.S. Department of Health and Human Services
CFDA No.: 93.558
Program: Temporary Assistance for Needy Families
Requirement: Eligibility
Type of Finding: Non-Compliance and Material Weakness

Criteria: The State of Hawaii Temporary Assistance for Needy Families State Plan provides the rules and regulations for the eligibility requirements of the TANF program subject to the requirements of 45 CFR 206.10. To apply for assistance, applicants must complete and file an application form, be interviewed by a caseworker, and have certain information verified. Further, to be eligible, the applicant must meet specific financial requirements.

Condition, cause and context: We selected 60 case files for testing and noted the following:

- 2 instances where the case file did not contain the application and interview form, birth certificate and State of Hawaii identification (ID). The missing documents resulted in benefit overpayment of \$3,820.
- 4 instances where the benefit amount was not calculated correctly, resulting in a benefit overpayment of \$2,138 and underpayment of \$25
- 1 instance where eligibility was incorrectly determined, resulting in benefit overpayment of \$3,050.

The Department indicated that there are policies and procedures in place regarding the application and benefit calculation but these policies and procedures were not diligently complied with.

Effect: Failure to follow its policies and procedures limits the ability of the Department to demonstrate compliance with the requirement and resulted in questioned costs. Further, there is a risk of inaccurate eligibility determinations resulting in ineligible participants receiving benefits or eligible participants receiving excess or deficient benefit amounts.

Questioned costs: \$9,008

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

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Schedule of Findings and Questioned Costs (continued)
June 30, 2015

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

Finding No.: 2015-13 Maintaining Proper Case Documentation to Support Eligibility Determinations (continued)

Corrective Action Taken or Planned: The Financial Assistance Program Administrator will ensure that the policies and procedures for maintaining proper case documentation is followed and adhered to with the following actions:

1. Complete medical re-evaluations timely. Medical re-evaluation listings are sent to the FTW specialist for distribution to the case managers, who are responsible to process the reviews. The FTW specialist will be apprised of audit findings and will be requested to review their responsibilities to have the clients complete medical re-evaluations timely as failure to do so will impact their financial eligibility. FAP will work with BESSD Staff Development Office to address the negative issues outlined.
2. Address the failure to extend correct income projection from verified sources.
3. Address issues associated with the projection of future month income based on actual income. When a Policy Clarification is issued notifying of an error for the projected income for future month, correct the error. Also, address issues associated with overpayment of claims filed.
4. Address issues pertaining to missing documents (i.e., 106, income support, birth certificate, etc.). Make sure documents are verified and scanned into client's ECF.
5. Check fleeing felon listing. The Fleeing Felon listing is dispersed to the processing centers via a Policy Clarification and the action needed to be taken. Action should be taken upon issuance of the Policy Clarification and listing. FAP will require feedback from the processing centers for confirmation that action has been taken.

End Date: On-going

Responding Person: Patricia Quiacusan, Eligibility Program Specialist V, (808) 586-5733

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Schedule of Findings and Questioned Costs (continued)
June 30, 2015

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

Finding No.: 2015-14 Procurement, Suspension and Debarment

Federal Agency: U.S. Department of Health and Human Services
CFDA No.: 93.558
Program: Temporary Assistance for Needy Families
Requirement: Procurement, Suspension and Debarment
Type of Finding: Non-Compliance and Material Weakness

Criteria: In accordance with Office of Management and Budget (OMB) 2 CFR 180.300, when a non-Federal entity enters into a covered transaction with an entity at a lower tier, the non-Federal entity must verify that the entity and its principals are not suspended or debarred or otherwise excluded from participating in the transaction by checking the Excluded Parties List System (EPLS), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity.

Condition, cause, and context: We selected 8 of 21 new or renewed contracts procured in the current year for testing and noted that the Department did not verify whether the vendors were suspended or debarred from Federal contracts. The Department asserted that they were not aware of the requirement to verify that the subrecipient was not suspended or debarred or otherwise excluded from Federal contracts. We searched the EPLS and verified that the selected vendors were not suspended or debarred.

Effect: Failure to properly verify that the contracting agency is not an excluded party could result in payments to excluded parties.

Questioned costs: None

Recommendation: We recommend the Department develop policies and procedures to ensure compliance with the requirement.

Corrective Action Taken or Planned: The Benefit, Employment, and Support Services Division (BESSD) has issued instructions to Program Offices that conduct procurements to conduct searches on vendors in EPLS, through Sam.gov prior to entering into a contractual agreement. The results of these searches will be printed out and filed in the contract folder for verification.

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Schedule of Findings and Questioned Costs (continued)
June 30, 2015

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

Finding No.: 2015-14 Procurement, Suspension and Debarment (continued)

End Date: Completed

Responding Person: Scott Nakasone, Acting Benefit, Employment, and Support Services Division Administrator, (808) 586-7054

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Schedule of Findings and Questioned Costs (continued)
June 30, 2015

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

Finding No.: 2015-15 Quarterly Reporting

Federal Agency: U.S. Department of Health and Human Services
CFDA No.: 93.558
Program: Temporary Assistance for Needy Families
Requirement: Reporting
Type of Finding: Non-Compliance and Material Weakness

Criteria: 45 CFR 265.3 requires each State to collect on a monthly basis, and file on a quarterly basis, the data specified in the Temporary Assistance for Needy Families (TANF) Data Report.

Condition, cause and context: We selected 4 quarterly Data Reports for testing and further selected 60 case files which supported the information included in the Data Reports noting the following:

- For 2 quarterly reports, the key report line item “TANF Family Exempt from Time_Limits” was incorrectly reported for 4 case files.
- For 2 quarterly reports, the key line item “Work Participation Status” was incorrectly reported for 3 case files.

The Department indicated that the errors were due to information that was updated in its system subsequent to the period in which the report was generated.

Effect: Failure to properly report the correct data resulted in non-compliance with the requirement. Further, 45 CFR 265.8 allows for a potential penalty to be imposed when the Department fails to comply with the requirement.

Questioned costs: None

Recommendation: We recommend the Department develop policies and procedures over the reporting requirement. Specifically, the Department should consider including cut-off periods to ensure information reported is complete and accurate.

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Schedule of Findings and Questioned Costs (continued)
June 30, 2015

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

Finding No.: 2015-15 Quarterly Reporting (continued)

Corrective Action Taken or Planned: In February 2015, the Financial Assistance Program Office (FAP) and the Employment and Training Program Office (ETPO) developed a Federal TANF Extract Team. This team, led by FAP Program Specialist, Elisa Furtado-Fischer, is responsible to maintain the Federal TANF Data Reports (TDR). The responsibilities include:

1. Maintain soft and hard-copy files of the written instructions manual in which the Office of Information and Technology (OIT) follows to develop the extract programs and create the Federal TDR;
2. Review error reports received from the Administration for Children and Families (ACF) and take necessary action to resolve the errors;
3. Revise the written instructions manual to address any errors that may have resulted from the extract programs;
4. Recommend any HAWI and HANA system modifications to ensure correct data required is extracted and the TDR is compliant with the TANF reporting requirements; and
5. Respond to questions and TDR issues raised by ACF.

On January 14, 2016, the TANF Federal Extract Team met to review the data reporting policies and the fundamental components of the TDR because some team members were not familiar with the TANF report requirements and the Federal TDR. The meeting focused on:

1. Components of the extract programs and their scheduled runs;
2. Policies on data collection and reporting requirements [45 CFR §§265.3-4 and 265.8];
3. Overview of the four TDR sections;
4. How to read the actual TDR files;
5. Overview of the extract programs' instructions manual;
6. Overview of the various ACF reports (i.e. transmission, WPR data files and frequency reports); and
7. Definitions of the “TANF Fatal Edits” and “TANF Warning Edits”;

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Schedule of Findings and Questioned Costs (continued)
June 30, 2015

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

Finding No.: 2015-15 Quarterly Reporting (continued)

Additional meetings will be scheduled in the future when it is determined appropriate. Otherwise, members continue to communicate and informally meet to fulfill the responsibilities described above.

In September 2015, pursuant to 45 CFR §§265.4(c) and 265.10, the team made the decision to re-run the TDR for the entire FFY 2015 and submit a final version before the December 31st deadline. Submitting a final version will ensure all the corrections made during the FY are captured and reflected in our Federal TDR.

Note: The Federal TDR files that were provided for this 2015 audit review were the initial reports submitted in October 2014 for FFY 2014 - Quarter 4; in January 2015 for FFY 2015 – Quarter 1; in April 2015 for Quarter 2; and in September 2015 for Quarter 3. However, an updated and final TDR for the entire year of FFY 2015 was submitted in December 2015. Some errors found in the initial 2015 Quarters 1-3 reports may have been resolved; therefore, these errors would not appear in the final TDR submitted in December 2015.

End Date: On-going

Responding Person: Paul Higa, Financial Assistance Administrator, (808) 586-5729 and Catherine Scardino, Employment and Training Program Administrator, (808) 586-7062

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Schedule of Findings and Questioned Costs (continued)
June 30, 2015

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

Finding No.: 2015-16 Federal Funding Accountability and Transparency Act (FFATA) Reporting

Federal Agency: U.S. Department of Health and Human Services
CFDA No.: 93.558
Program: Temporary Assistance for Needy Families
Requirement: Reporting
Type of Finding: Non-Compliance and Material Weakness

Criteria: 2 CFR Part 170 requires an entity to report each action that obligates \$25,000 or more in federal funds for a subaward to an entity. This information is to be reported no later than the end of the month following the month in which the obligation was made.

Condition, cause and context: The Department indicated that they did not comply with the FFATA reporting requirements for all subawards. Program management indicated that they were aware of the requirement but due to miscommunication with the Fiscal Management Office (FMO) regarding the responsibilities of reporting, reports were not submitted in the required time frame. The finding was also noted in prior year finding 2014-15.

Effect: The Department did not comply with the FFATA reporting requirements.

Questioned costs: None

Recommendation: We recommend the Department develop and implement procedures to ensure that the required FFATA reports are submitted in a timely manner.

Corrective Action Taken or Planned: The Benefit, Employment, and Support Services Division (BESSD) has issued instructions to Program Offices that conduct procurements to enter the contract award via FSRS within 30 days of obligating the contract funding. The FSRS record entry will be printed out and filed in the contract folder for verification.

End Date: Completed

Responding Person: Scott Nakasone, Acting Benefit, Employment, and Support Services Division Administrator, (808) 586-7054

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Schedule of Findings and Questioned Costs (continued)
June 30, 2015

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

Finding No.: 2015-17 Maintaining Proper Case Documentation to Support Compliance with Child Support Non-Cooperation Requirement

Federal Agency: U.S. Department of Health and Human Services

CFDA No.: 93.558

Program: Temporary Assistance for Needy Families

Requirement: Special Tests and Provisions - Child Support Non-Cooperation

Type of Finding: Non-Compliance and Material Weakness

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

Condition, cause and context: The Child Support Enforcement Agency (CSEA), the Department's Title IV-D agency, will identify TANF participants (cases) as non-cooperating. We selected 60 participants from a listing of non-cooperating participants, noting 38 did not have documentation in their file to indicate whether the Department took appropriate action regarding their non-cooperation, resulting in an overpayment of benefits of \$68,190.

Although the Department has policies and procedures in place which require the program to maintain the required documents or to ensure that appropriate benefit reduction actions are taken, there was a lack of diligence in either filing or obtaining the required documents and stopping benefit payments.

Effect: Failure to properly maintain the required documentation on file resulted in non-compliance with the requirements and questioned costs.

Questioned costs: \$68,190

Recommendation: We recommend the Department diligently perform the required procedures and maintain the appropriate documents to comply with its policies and procedures.

Corrective Action Taken or Planned: Financial Assistance Program (FAP) is in the process of correcting procedures by requesting a system modification to alert the EW that a CS non-compliance has occurred. Currently the alert disappears after 30 days; the request is to remove automated deletion of the alert and deauthorization of the case requiring the EW to take prompt action to sanction the TANF household due to CS non-compliance.

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Schedule of Findings and Questioned Costs (continued)
June 30, 2015

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

**Finding No.: 2015-17 Maintaining Proper Case Documentation to Support Compliance with
Child Support Non-Cooperation Requirement (continued)**

End Date: October 2016

Responding Person: Patricia Quiacusan, Eligibility Program Specialist V, (808) 586-5733

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Schedule of Findings and Questioned Costs (continued)
June 30, 2015

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

Finding No.: 2015-18 Improve the Monitoring of Required Work Participation Hours

Federal Agency: U.S. Department of Health and Human Services
CFDA No.: 93.558
Program: Temporary Assistance for Needy Families
Requirement: Special Tests and Provisions – Penalty for Failure to Comply with Work Verification Plan
Type of Finding: Non-Compliance and Material Weakness

Criteria: Each State agency must comply with its Work Verification Plan, including adequate documentation, verification, and internal control procedures. The documentation and verification of work activity is governed by 45 CFR sections 261.60 - .61. To comply with the Federal rule, the Hawaii Administrative Rules (HAR) provides guidelines by which the Department implements programs it administers. HAR 17-794.1-38, First-to-Work (FTW) Program, provides the Department with guidelines on the administration of the FTW program which administers the Work Verification Plan. HAR 17-794.1-37(k), states that if participants fail to make good and satisfactory progress, or maintain good standing, or comply with the minimum number of hours of participation without good cause, as defined, the Department shall impose a sanction in accordance with HAR 17-656.1-10.

Condition, cause and context: We selected 60 case files for testing and noted the following:

- 4 instances where work activity hours, which were accurately reported, did not meet the required number of hours and there was no documentation evaluating the cause or lack of sanctions imposed.
- 1 instance where work activity hours, which were overstated by 2 hours, did not meet the required work activity hours and there was no documentation evaluating the cause or lack of sanctions imposed.
- 1 instance where a participant was incorrectly categorized as exempt from the work participation requirement.
- 1 instance where a required form was not signed by the caseworker.

Although the Department has established policies and procedures in place to ensure that accurate work activity is tracked, reported, and documented, the Department did not diligently follow existing policies and procedures.

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Schedule of Findings and Questioned Costs (continued)
June 30, 2015

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

**Finding No.: 2015-18 Improve the Monitoring of Required Work Participation Hours
(continued)**

Effect: Failure to properly track, report, and document the amount of work activity by participants resulted in noncompliance with the requirement. Further, the Department of Health and Human Services may penalize a State by an amount not less than one percent and not more than five percent of the State Family Assistance Grant for violation of 45 CFR sections 261.60-.61.

Questioned costs: None

Recommendation: The Department should diligently apply the policies and procedures in place to comply with the Work Verification Plan.

Corrective Action Taken or Planned:

1. First-To-Work (FTW) Program Operational Procedures were developed to formally implement three levels of quality assurance (QA) audits or case reviews. The procedures were effective upon distribution on 02/16/16. The levels of QA audits are:
 - Level I – FTW Unit Supervisors (conducted on a monthly basis)
 - Level II – Section Administrators and Contract Directors (conducted on a monthly basis)
 - Level III – Employment and Training Program Office
2. The ETPO resumed the Level III QA audits in February 2016, reviewing cases for FFY 2016 – Quarter 1. Beginning with case reviews for FFY 2016 – Quarter 2, Level III audits will be conducted on a quarterly basis. Tentative Schedule:
 - Quarter 2 – May 2016
 - Quarter 3 – August 2016
 - Quarter 4 – November 2016

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Schedule of Findings and Questioned Costs (continued)
June 30, 2015

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

**Finding No.: 2015-18 Improve the Monitoring of Required Work Participation Hours
(continued)**

3. The QA audit findings will be analyzed and compiled into a statewide report and distributed no later than 3 months from the conclusion of the audits. Each FTW unit will be provided with individual reports that will include the unit's error rate, findings, and specific cases with substantive and non-substantive errors. Units with high error rates [>10%] will be required to submit a corrective action plan within 45 days from the date the reports were distributed. The next report will be distributed in May 2016 for FFY 2016 – Quarter 1, at which time, the corrective action plan requirement will take effect.

Note: All reports require internal review and approval prior to distribution.

4. Two Program Specialists from ETPO is assigned to work with the Staff Development Trainer to restructure the FTW Training curriculum;
5. Ensure materials are up-to-date;
6. Add more references to the Work Verification Plan (WVP);
7. Emphasize areas with greater concerns (i.e. errors identified through the Federal and QA audits); and
8. Incorporate new modules to address documentation (case notes), case management and counseling.
 - a. Initial discussion will be scheduled in March 2016. Completion date is projected to be in 2017. Staff Development (Training) Office will need to commit time to develop new child care subsidy and licensing training curriculum as the result of new Federal regulations under the CCDBG Act of 2014 taking effect in November 2016.

Note: Revisions to the FTW Training curriculum require internal review and approval prior to implementation.

9. All FTW units will be notified, via an Internal Communication Form (ICF), of the findings from the 2015 audit after the Department has received the audit report. The ICF will include a list of errors found through the Federal TANF and QA audits, instructions to correct the errors, and WVP citations.

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Schedule of Findings and Questioned Costs (continued)
June 30, 2015

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

**Finding No.: 2015-18 Improve the Monitoring of Required Work Participation Hours
(continued)**

10. Continue to revise FTW Program forms and operational procedures as well as continue to issue policy clarifications (PC) when necessary.

Note: All new/revised forms, PCs, and operational procedures require internal review and approval prior to distribution/publication.

End Date: On-going

Responding Person: Catherine Scardino, Employment and Training Program Administrator, (808) 586-7062

**Department of Human Services
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Schedule of Findings and Questioned Costs (continued)
June 30, 2015

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

Finding No.: 2015-19 Maintaining Proper Case Documentation to Support Eligibility Determinations

Federal Agency: U.S. Department of Health and Human Services
CFDA No.: 93.568
Program: Low Income Home Energy Assistance
Requirement: Eligibility
Type of Finding: Non-Compliance and Material Weakness

Criteria: 42 USC Chapter 94 Section 8624(b)(2) allows the Department to provide assistance to (a) households in which one or more individuals are receiving Temporary Assistance for Needy Families (TANF), Supplemental Security Income (SSI), Supplemental Nutrition Assistance Program (SNAP) benefits, or certain needs-tested veterans benefits; or (b) households with incomes which do not exceed the greater of 150 percent of the State's established poverty level, or 60 percent of the State median income. Further 42 USC Chapter 94 Section (d) requires the State to expend funds in accordance with the State plan under this subchapter or in accordance with revisions applicable to such a plan.

Condition, cause and context: During our audit, we selected 69 case files for testing and noted the following:

- 6 instances where the income information used in the LIHEAP (eligibility) Determination form to calculate the eligible credit amount was incorrect, resulting in the underpayment of benefits in the amount of \$156.
- 1 instance where the applicant's information regarding public/subsidized information was incorrect, resulting in the underpayment of benefits in the amount of \$430.
- 15 instances where the LIHEAP (eligibility) Determination form was missing a sign off by either the preparer or the second reviewer. This did not result in an over or underpayment of benefits.

Although the Department has policies and procedures in place to ensure that eligibility determinations and benefit calculations are performed accurately and properly reviewed, there was a lack of diligence in following the policies and procedures.

Effect: Failure to follow the policies and procedures resulted in non-compliance with the requirements and benefit underpayments.

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Schedule of Findings and Questioned Costs (continued)
June 30, 2015

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

Finding No.: 2015-19 Maintaining Proper Case Documentation to Support Eligibility Determinations (continued)

Questioned costs: None

Recommendation: We recommend the Department be more diligent in ensuring that benefit calculations and reviews are performed and documented in accordance with the established policies and procedures.

Corrective Action Taken or Planned: The Low Income Home Energy Assistance Program (LIHEAP) Coordinator will ensure that the policies and procedures for LIHEAP is followed and adhered to with the following actions:

1. Training to be provided for LIHEAP contractors with the emphasis put on income calculation.
2. Review the LIHEAP Policy and Procedures with contractors to ensure better documentation. Also review the procedures within their agency to ensure better documentation.
3. Review the signature and sign off requirements, although the agency size may require adjustments to this procedure as necessary. Reviews of procedures will be conducted and an analysis will be made to determine if adjustments are needed to ensure that accuracy is maintained within each agency.

End Date: May 31, 2016

Responding Person: Teri Ann Escudero, LIHEAP Coordinator, (808) 586-5734

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Schedule of Findings and Questioned Costs (continued)
June 30, 2015

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

Finding No.: 2015-20 Maintaining Proper Case Documentation to Support Eligibility Determinations

Federal Agency: U.S. Department of the Interior
CFDA No.: 15.875
Program: Economic, Social, and Political Development of the Territories
Requirement: Eligibility
Type of Finding: Non-Compliance and Material Weakness

Criteria: In accordance with 42 CFR 435.907, the Department must accept an application from the applicant, and any documentation required to establish eligibility.

Condition, cause and context: We selected 60 case files for testing and noted the following:

- 3 instances where no application and verification of citizenship was maintained, resulting in benefit overpayments of \$3,982.
- 9 instances where no application was maintained, resulting in benefit overpayments of \$9,525.
- 5 instances where no verification of citizenship was maintained, resulting in benefit overpayments of \$3,911.

The Department has policies and procedures in place covering the eligibility determination process but these policies and procedures were not diligently complied with.

Effect: Failure to follow its policies and procedures limits the ability of the Department to demonstrate compliance with the program requirements and resulted in questioned costs.

Questioned costs: \$17,418

Recommendation: We recommend the Department to diligently comply with its policies and procedures.

Corrective Action Taken or Planned: As noted in the auditor's findings there were instances where they were unable to find citizenship documentation in the MQD files. When the new eligibility system was brought up, financial cases that also had medical coverage attached were separated and the medical case was transferred to MQD. Therefore those cases reviewed by the auditors were converted from the HAWI system and the citizenship requirement would have been originally verified by BESSD who had ownership of the case records which included the initial application forms.

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

Finding No.: 2015-20 Maintaining Proper Case Documentation to Support Eligibility Determinations (continued)

With the implementation of the new eligibility system on October 1, 2013 KOLEA has been verifying citizenship status electronically with the Department of Homeland Security. In those cases, we no longer maintain hard copies of citizenship documentation unless Homeland Security is unable to verify electronically and MQD must, at that point, request hard copy documentation to be provided by the applicant.

In addition, with the ability for applicants to submit their application and upload documents electronically, there are no hard copy “case files” that are maintained. Case information is being maintained electronically.

All supervisory staff has been instructed to properly maintain case files assigned to their unit. As the Division, with the implementation of KOLEA, move to a more paperless environment, paper case files will be reduced and all documents related to the case will be maintained electronically. Procedures are in place to maintain all hard copy documents related to initial and re-determinations of eligibility.

In addition, the Division has requested funding to procure a contractor to assess and assist with redesigning the work flow process in our Eligibility Branch. With more functionality added to KOLEA but no additional staffing, the Division believes the re-engineering of the workflow is needed. Maintenance of paper as well as electronic documents will be included in the scope of service.

End Date: On-going

Responding Person: Leslie K. Tawata, Med-QUEST Division Assistant Administrator, (808) 692-8052

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Schedule of Findings and Questioned Costs (continued)
June 30, 2015

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

Finding No.: 2015-21 Semi-Annual Reporting

Federal Agency: U.S. Department of the Interior
CFDA No.: 15.875
Program: Economic, Social, and Political Development of the Territories
Requirement: Reporting
Type of Finding: Non-Compliance and Material Weakness

Criteria: Per the Grant Terms & Conditions, a SF-425 Federal Financial Report and a narrative project status report will be submitted semi-annually for the periods beginning January 1 and ending June 30, and beginning July 1 and ending December 31. The reports are due within 30 days of the end of the period. Final reports are due 90 days after the expiration or termination of the award.

Condition, cause and context: During our audit, we noted that the Department submitted an annual report outside of the required 30 days after period end. We further noted that the required final report was not filed.

Program management indicated that they were aware of the reporting requirement but did not have procedures in place to address the filing of reports.

Effect: Failure to properly file the required reports resulted in non-compliance with the requirement.

Questioned costs: None

Recommendation: We recommend the Department develop and implement procedures to ensure that the required federal financial reports are submitted and on a timely basis.

Corrective Action Taken or Planned: The Department acknowledges submission of the report annually. The Department will be initiating discussion with the Department of Interior to discuss the frequency for submission of the report and to see if it can be revised.

End Date: On-going

Responding Person: Leslie K. Tawata, Med-QUEST Division Assistant Administrator, (808) 692-8052

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Schedule of Findings and Questioned Costs (continued)
June 30, 2015

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

Finding No.: 2015-22 EBT Card Security

Federal Agency: U.S. Department of Agriculture
CFDA No.: 10.551 and 10.561
Program: Supplemental Nutrition Assistance Program (SNAP) Cluster
Requirement: Special Tests and Provisions – EBT Card Security
Type of Finding: Non-Compliance and Material Weakness

Criteria: In accordance with 7 CFR section 274.8(b)(3), the Department is required to ensure EBT security requirements are established for storage and control measures to control blank unissued EBT cards and PINs. The Department's policy is to lock up blank EBT cards when not in use and to log destroyed EBT cards onto the Daily Control Log (DHS 1495) form.

Condition, cause and context: During our testing, we noted 2 out of 3 processing centers selected for testing where bulk EBT cards were not physically secured in a locked drawer or cabinet and EBT cards that were destroyed but were not logged on the Daily Control Log.

There are policies and procedures in place regarding the physical security over EBT cards but the Department did not diligently comply with existing policies and procedures.

Effect: Failure to secure the bulk EBT cards and log destroyed EBT cards resulted in non-compliance with the requirement.

Questioned costs: None

Recommendation: We recommend the Department diligently comply with its policies and procedures to ensure compliance with the requirement.

Corrective Action Taken or Planned: The EBT office has reviewed all physical security of bulk EBT card inventory as well as the documentation of all destroyed EBT cards within each processing center. The EBT office will address these findings in revised documentation and will be issuing updated procedures to ensure that all offices comply with federal requirements. These revised DHS documents and EBT procedures will be issued to staff by the end of SFY 2016.

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

Finding No.: 2015-22 EBT Card Security (continued)

End Date: On-going

Responding Person: Ginet Hayes, Electronic Benefits Transfer Project Administrator, (808) 586-5739

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Schedule of Findings and Questioned Costs (continued)
June 30, 2015

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

Finding No.: 2015-23	Eligibility Determination and Benefit Calculation
Federal Agency:	U.S. Department of Agriculture
CFDA No.:	10.551 and 10.561
Program:	Supplemental Nutrition Assistance Program (SNAP) Cluster
Requirement:	Eligibility
Type of Finding:	Known Questioned Costs When Likely Questioned Costs Are Greater Than \$10,000

Criteria: The application process for SNAP is governed by 7 CFR 273.2. To comply with the Federal rule, the Hawaii Administrative Rules (HAR) provides guidelines by which the Department implements programs it administers. In accordance with the Hawaii Administrative Rules 17-647-32, Verification, the Department shall verify information, as defined, prior to certification for households which are initially applying for SNAP.

Condition, cause and context: We selected 60 case files during our testing of the Eligibility determination and noted the following:

- 1 instance where information (i.e. Identification) was not maintained in the case file to support the data input into the system, resulting in benefit overpayment of \$867.
- 2 instances where the benefit amount was calculated with old information, resulting in benefit underpayment of \$51.

The Department indicated that there are policies and procedures in place regarding application processing and eligibility determination but the Department did not diligently comply with these policies and procedures.

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

Questioned costs: \$867

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

Finding No.: 2015-23 Eligibility Determination and Benefit Calculation (continued)

Recommendation: We recommend the Department diligently comply with its policies and procedures to ensure compliance with the requirement.

Corrective Action Taken or Planned: SNAP will review the verification requirements and the document retention requirements with the Management of Processing Centers.

End Date: On-going

Responding Person: Pamela Higa, Supplemental Nutrition Assistance Program Administrator,
(808) 586-5722

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Schedule of Findings and Questioned Costs (continued)
June 30, 2015

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

Finding No.: 2015-24 Improve the Accuracy of Child Care Reimbursements

Federal Agency: U.S Department of Health and Human Services
CFDA No.: 93.575 and 93.596
Program: Child Care and Development Fund (CCDF) Cluster
Requirement: Eligibility
Type of Finding: Known Questioned Costs When Likely Questioned Costs Are Greater Than \$10,000

Criteria: Title 45 CFR Section 98.67 requires that the Department expend and account for Child Care and Development funds in accordance with their own laws and procedures for expending and accounting for their own funds. According to Chapter 17-798.2 of the Hawaii Administrative Rules (HAR), child care payments will include the monthly cost of child care per child, which will be made in accordance with the established fee scale and rate table as stipulated in the HAR.

Condition, cause and context: We selected 60 case files for testing and noted two instances where the information used in the Child Care Worksheet to calculate the eligible child care payments was incorrect. These errors resulted in two instances in which benefit payments totaling \$1,159 was overpaid to participants.

These errors were due to clerical mistakes or lack of proper oversight.

Effect: Failure to properly calculate child care payments resulted in over payments of benefits.

Questioned costs: \$1,159

Recommendation: We recommend the Department to continue to perform post payment reviews of a sample of child care payments with a focus on the types of cases that are more susceptible to errors to ensure accuracy and assess case worker performance.

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

Finding No.: 2015-24 Improve the Accuracy of Child Care Reimbursements (continued)

Corrective Action Taken or Planned: Since mid-2013, the Child Care Program Office (CCPO) staff has been working with the subsidy contractor in standardization of the contractor's Quality Assurance (QA) review protocols and instrument to be used for continuous quality improvement assessment of performance and staff training needs regarding accuracy of payments issued. The contractor is required to do monthly QA reviews, with CCPO providing the list of selected cases to the contractor. ResCare staff conducts secondary sample case reviews of the contractor's cases for monitoring purposes and ensuring reliability of the contractor's QA process. The CCPO program staff continues to monitor the contractor and provide policy clarifications as needed to the contractor. The Department is currently completing its triennial Federal Improper Payment Review of Federal Fiscal Year 2015 cases, which has taken up CCPO staff resources to conduct the federal audit from the on-going secondary QA reviews of the subsidy contractor. Once the Department completes the federal audit review, CCPO staff will resume secondary QA reviews of the subsidy contractor's cases.

The Department will also revisit seeking the assistance of DHS Quality Control (QC) unit to conduct secondary sample case reviews of the contractor's cases to assist in identifying areas in which additional training or policy clarification may be needed for the contract staff. CCPO had originally requested DHS QC assistance in mid-2012, however due to the caseload of the DHS QC unit it was determined that the DHS QC unit would not be able to assist CCPO in conducting secondary reviews until possibly 2017, dependent on the ability of DHS QC unit in filling vacant positions.

For the First-To-Work program that issues child care subsidies to families receiving financial assistance, staff from the Employment & Training Program Office (ETPO) has incorporated the child care subsidy portion into the established monthly case reviews conducted by unit supervisors and section administrators and quarterly case reviews conducted by ETPO. Of the cases that are sampled for their First-To-Work Work Verification Plan reviews, the First-To-Work staff are utilizing the common review instrument to determine whether the child care subsidy issued was properly authorized. Training was provided to the units to ensure consistency in how they are conducting the reviews. Training was also provided to the First-To-Work staff to reinforce policies regarding issuance of child care assistance for First-To-Work clients. Beginning April 2016, ETPO will collaborate with the Staff Development Office to restructure the First-To-Work and HANA System Training to allow additional time to be spent on the child care subsidies modules. Furthermore, through policy clarifications (PC), ETPO intends to compile common errors identified through the various case reviews and provide instructions to the FTW staff. The first PC is expected sometime in March 2016.

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2015

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

Finding No.: 2015-24 Improve the Accuracy of Child Care Reimbursements (continued)

CCPO issued a Desk Aid for child care subsidy staff for both the Child Care Connection Hawaii and First-To-Work offices in June 2015 to assist staff and contractors with common data entry errors into the DHS child care case management system. CCPO staff have continued to review a sample cases each month from DHS and contract staff for First-To-Work and Child Care Connection Hawaii cases. CCPO meets monthly with ETPO and Child Care Connection Hawaii contractor to review the child care services administrative rules and determine areas in which policy clarification may be needed.

End Date: On-going

Responding Person: Dana Balansag, Child Care Program Administrator, (808) 586-7187

**Department of Human Services
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Schedule of Findings and Questioned Costs (continued)
June 30, 2015

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

Finding No.: 2015-25 Monitor the Medicaid Drug Rebate Program

Federal Agency: U.S Department of Health and Human Services
CFDA No.: 93.778
Program: Medical Assistance Program
Requirement: Allowable Costs
Type of Finding: Significant Deficiency

Criteria: The Medicaid Drug Rebate Program, as set forth in Section 1927 of the Social Security Act requires the Department to maintain drug utilization data that identifies the number of units of each covered outpatient drug for which the Department reimbursed providers. The number of units is applied to the unit rebate amount to determine the actual rebate amount due from each manufacturer.

Condition, cause and context: The Department subcontracts the daily operations of the drug rebate program to Xerox, including billing, collection, accounting, and dispute resolution. While the day to day operations of the drug rebate program have been subcontracted to Xerox, the Department is still ultimately accountable for the drug rebate program. We noted that the Department does not perform monitoring of subcontractor activities. Due to the complexity involved in the drug rebate calculations, the Department does not have the necessary resources and staffing requirements to perform monitoring procedures of subcontractor activities.

Effect: The lack of subcontractor monitoring activities may result in the risk that the drug rebates are not being calculated correctly and accurately reported.

Questioned costs: None

Recommendations: The Department should establish formal procedures to monitor its subcontractor activities of the drug rebate program.

Corrective Action Taken or Planned: The Med-QUEST Division pharmacist position was filled effective February 4, 2016. The development of procedures to monitor the drug rebate program will be a priority.

End Date: On-going

Responding Person: Leslie K. Tawata, Med-QUEST Division Assistant Administrator, (808) 692-8052

PART V

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Department of Human Services State of Hawaii

Summary Schedule of Prior Audit Findings
June 30, 2015

STATUS REPORT

This section contains the current status of our prior audit recommendations. The recommendations are referenced to the pages of the previous audit report for the fiscal year ended June 30, 2014, dated March 20, 2015.

<u>Recommendations</u>	<u>Status</u>
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Part III – Federal Award Findings and Questioned Costs Section

2014-02 Complete Eligibility Applications and Annual Eligibility Re-Verifications in a Timely Manner

**CFDA No.: 93.778
Program: Medical Assistance Program**

Criteria: Title 42 CFR Part 435.911 requires the timely determination of eligibility of individuals who apply for Medicaid benefits within 1) Ninety days for applicants who apply for Medicaid on the basis of disability, and 2) forty five days for all other applicants. In addition, Title 42 CFR Part 435.916 requires annual re-verifications of participant eligibility.

This finding is still applicable. See finding 2015-01.

Condition, cause and context: During our audit, we noted the Department did not determine eligibility on a timely basis.

There were 156,010 initial applications received during fiscal year 2014. At the end of each month, there was an average of approximately 2,670 Modified Adjusted Gross Income (MAGI) applications and 208 Non-MAGI applications for which eligibility was not determined in a timely manner. As of the end of the fiscal year, the Department was able to reduce the number of outstanding applications for which eligibility was not determined in a timely manner to 1,453 MAGI and

**Department of Human Services
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Summary Schedule of Prior Audit Findings (continued)
June 30, 2015

<u>Recommendations</u>	<u>Status</u>
Part III – Federal Award Findings and Questioned Costs Section (continued)	
2014-02 Complete Eligibility Applications and Annual Eligibility Re-Verifications in a Timely Manner (continued)	CFDA No.: 93.778 Program: Medical Assistance Program

153 Non-MAGI applications. Additionally, there were 170,837 renewals processed during fiscal year 2014. As of the end of the fiscal year, renewals which were submitted and not reverified within 12 months could not be determined due to KOLEA not having the capability to create a report.

KOLEA is the Department's new eligibility system that assists in determining eligibility and prioritizing determinations thereby minimizing untimely determinations. Although KOLEA is able to electronically determine the eligibility for certain applications, there are still a large number of applications which require the review of an Eligibility Worker. Additionally, the change in eligibility systems from HAWI to KOLEA caused a delay in eligibility determinations creating a larger backlog. Due to the anticipated backlog Management obtained a waiver from CMS to extend renewal determinations for the period October 2013 to March 2014 to be completed prior to October 2014. Management also indicated that the KOLEA system did not have the capability to monitor the timeliness of renewal determinations.

Effect: The backlog of applications pending eligibility determinations and overdue annual re-verifications increases the risk that ineligible recipients may continue to receive benefits or that

**Department of Human Services
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Summary Schedule of Prior Audit Findings (continued)
June 30, 2015

<u>Recommendations</u>	<u>Status</u>
Part III – Federal Award Findings and Questioned Costs Section (continued)	
2014-02 Complete Eligibility Applications and Annual Eligibility Re-Verifications in a Timely Manner (continued)	CFDA No.: 93.778 Program: Medical Assistance Program

eligible applicants may not receive benefits in a timely manner.

Questioned costs: None

Recommendations: We recommend the Department continue to assess the staffing requirements at the Eligibility Branch as well as reviewing its procedures over prioritizing applicants/participants to ensure that the backlog of applications pending eligibility determinations is further reduced and ultimately eliminated. We also recommend adding capability for the KOLEA system to monitor the timeliness of renewal determinations.

Corrective Action Taken or Planned:

The Med-QUEST Division (MQD) continues to work with existing staff to address the overdue applications and annual re-verifications and continue to make significant improvement in this area. Filling vacant positions continues to remain a top priority. In addition, MQD is utilizing temporary 89-day appointments to temporarily fill vacant positions until they are permanently filled.

**Department of Human Services
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Summary Schedule of Prior Audit Findings (continued)
June 30, 2015

<u>Recommendations</u>	<u>Status</u>
Part III – Federal Award Findings and Questioned Costs Section (continued)	
2014-02 Complete Eligibility Applications and Annual Eligibility Re-Verifications in a Timely Manner (continued)	CFDA No.: 93.778 Program: Medical Assistance Program
A new electronic eligibility system (KOLEA) became operational on October 1, 2013 to be in compliance under the Affordable Care Act. This new system has expedited the processing of applications and annual re-verifications. KOLEA will produce a quarterly ad hoc report of outstanding renewal determinations which will be distributed to the Eligibility Branch for follow-up. The contractor continues to correct deficiencies to improve the efficiency of the KOLEA system.	
Electronic Content Management (ECM) scanning became operational on January 19, 2015 has expedited the scanning of paper applications, supporting forms and documents into the KOLEA system to facilitate eligibility determinations.	

Department of Human Services State of Hawaii

Summary Schedule of Prior Audit Findings (continued)
June 30, 2015

<u>Recommendations</u>	<u>Status</u>
Part III – Federal Award Findings and Questioned Costs Section (continued)	
2014-03 Improve Controls over Utilization, Fraud and Accuracy of Medicaid Claims	CFDA No.: 93.778 Program: Medical Assistance Program
<p>Criteria: Title 42 CFR Part 456 Subpart A requires statewide program of control of the utilization of all Medicaid services. In addition, Title 42 CFR 456.23 requires a post payment review process that allows State personnel to review recipient utilization and provider service profiles and exception criteria to identify and correct mis-utilization practices of recipients and providers.</p> <p>Condition, cause and context: The development and administration of the State's Medicaid Assistance Program (MAP) is the responsibility of the Med Quest Division (MQD). The DHS information retrieval and non-drug claims processing system is the Hawaii Prepaid Medical Management Information System (HPMMIS). The HPMMIS is operated and maintained by the Arizona Health Care Cost Containment System (AHCCCS). In addition, the management and processing of DHS's pharmacy benefits is contracted to Xerox.</p> <p>Due to the complexity of the Medicaid program operations and the large volume of transactions, much reliance is placed on HPMMIS and its system of internal controls to accurately maintain enrollment and participant data and to ensure Medicaid costs are allowable, properly coded and accurately paid.</p> <p>Due to the Department not completing a post-payment review and monitoring of Xerox, its</p>	This finding is still applicable. See finding 2015-03.

**Department of Human Services
State of Hawaii**

Summary Schedule of Prior Audit Findings (continued)
June 30, 2015

<u>Recommendations</u>	<u>Status</u>
Part III – Federal Award Findings and Questioned Costs Section (continued)	
2014-03 Improve Controls over Utilization, Fraud and Accuracy of Medicaid Claims (continued)	CFDA No.: 93.778 Program: Medical Assistance Program

pharmacy benefits manager (PBM) for over nine years. The previous report issued by an independent healthcare auditing and consulting company recommended the need to explore additional edits, analysis, and reporting in order to expand anti-fraud efforts. The Department has created a pharmacist position to fulfill this function, however, this position is vacant.

Effect: Failure to implement a fully functioning post-payment review process resulted in non-compliance with the requirement. Further, there is a risk that the Department is failing to identify and correct misutilization practices and identify potential fraud.

Questioned costs: None

Recommendations: The Department should improve its post-payment review process by filling its vacant pharmacy position to conduct regular post payment reviews on a sample of drug and non-drug claims to detect processing errors and identify ways to improve the claims processing system and procedures. The Payment Error Rate Measurement conducted by Centers for Medicare and Medicaid Services is an example of a post payment review.

**Department of Human Services
State of Hawaii**

Summary Schedule of Prior Audit Findings (continued)
June 30, 2015

<u>Recommendations</u>	<u>Status</u>
Part III – Federal Award Findings and Questioned Costs Section (continued)	
2014-03 Improve Controls over Utilization, Fraud and Accuracy of Medicaid Claims (continued)	CFDA No.: 93.778 Program: Medical Assistance Program

Corrective Action Taken or Planned:

The Med-QUEST Division (MQD) has been working with the Personnel Office in establishing a Pharmacist position that was authorized by the legislature in 2012. The establishment of the position should be completed by March 31, 2015 after which the position will be recruited for. We are targeting to fill the position by June 30, 2015. The pharmacist would be able to conduct regular post payment reviews on a sample of drug and non-drug claim to improve controls over utilization, fraud, and accuracy of Medicaid claims.

Department of Human Services State of Hawaii

Summary Schedule of Prior Audit Findings (continued)
June 30, 2015

<u>Recommendations</u>	<u>Status</u>
Part III – Federal Award Findings and Questioned Costs Section (continued)	
2014-04 Allowable Costs Under Individualized Plans for Employment	CFDA No.: 84.126 Program: Vocational Rehabilitation
<p>Criteria: In accordance with 29 USC Section 723(a), vocational rehabilitation services provided under this subchapter are any services described in an individualized plan for employment developed for the individual. All services listed in the participant's individualized plan for employment are considered to be allowable activities.</p> <p>Condition, cause and context: Out of 60 payments we tested, we noted 1 payment that was not listed in the related participant's individualized plan for employment resulting in the overpayment of benefits of \$9,281.</p> <p>The Department's policies and procedures allow for revision to the individualized plan for employment as necessary, however, personnel handling the cases of these individuals were not diligent in revising the individualized plans. Department personnel indicated that they are experiencing challenges in updating the individualized plans due to staffing requirements.</p> <p>Effect: Failing to follow the policies and procedures resulted in questioned costs and non-compliance with the program requirements.</p> <p>Questioned costs: \$9,281</p>	This finding is still applicable. See finding 2015-04.

**Department of Human Services
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Summary Schedule of Prior Audit Findings (continued)
June 30, 2015

<u>Recommendations</u>	<u>Status</u>
Part III – Federal Award Findings and Questioned Costs Section (continued)	
2014-04 Allowable Costs Under Individualized Plans for Employment (continued)	CFDA No.: 84.126 Program: Vocational Rehabilitation

Recommendation: Department personnel should be more diligent in complying with the policies and procedures in place.

Corrective Action Taken or Planned:

Corrective Action Taken:

Effective July 7, 2014, Albert Perez, Vocational Rehabilitation Administrator (VRA) implemented new procedures to ensure that the provision of VR services meets agency standards regarding Individualized Plan for Employment (IPE) completion. On that same day, VR's new Automated Case Management System-AWARE went live. The new procedures were distributed to all counselors, referenced in the AWARE training packet, and discussed at the AWARE training. Frontline supervisors are required to review all cases moving beyond application into eligibility and IPE completion. The supervisor documents in the case notes that the review was completed. VR services cannot begin until the supervisory reviews for the Certification of Eligibility and IPE have been completed. In addition, AWARE will not allow payment for any VR services that are not listed in the IPE.

**Department of Human Services
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Summary Schedule of Prior Audit Findings (continued)
June 30, 2015

Recommendations Status

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

**2014-04 Allowable Costs Under Individualized
Plans for Employment (continued)** **CFDA No.: 84.126**
Program: Vocational Rehabilitation

In January 2015, a three-day workshop was attended by all Branch Administrators and Supervisors to assimilate VR's new Certification and IPE procedures into VR's "New Counselor Training" and "Statewide Case Review" procedures.

Corrective Action Planned:

1. On March 18, 2015 a Branch Administrators' meeting is scheduled to discuss the progress of the implementation of the July 2014 procedures for each branch.
2. Statewide Case Reviews will be completed in April 2015.
3. New Counseling Training, Part 1 will be completed in May 2015 and Part 2 will be completed in June 2015.

Department of Human Services State of Hawaii

Summary Schedule of Prior Audit Findings (continued)
June 30, 2015

<u>Recommendations</u>	<u>Status</u>
Part III – Federal Award Findings and Questioned Costs Section (continued)	
2014-05 Complete Eligibility Determinations in a Timely Manner	CFDA No.: 84.126 Program: Vocational Rehabilitation
<p>Criteria: 29 U.S. Code 722(a)(6), requires the Department to determine whether an individual is eligible for Vocational Rehabilitation services within a reasonable period of time, not to exceed 60 days, after the individual has submitted an application for services, unless exceptional and unforeseen circumstances exist beyond the Department's control and the Department and the applicant agree to a specific extension of time.</p> <p>Condition, cause and context: The Department did not always follow its policies and procedures to document a specific extension of time signed by both the counselor and applicant. Specifically, for 17 out of 60 applications tested, the Department did not determine eligibility, perform a case closure within the 60 day period or obtain a signed extension letter with the applicant.</p> <p>To ensure compliance with the timely eligibility determination requirement, the Department provides to each counselor on a monthly basis, a list of the counselor's assigned outstanding cases. The counselors are instructed to prioritize cases that are close to the 60 day eligibility deadline. The Department has stated that lack of diligence is the primary cause of these errors.</p> <p>Effect: Failure to make eligibility determinations in a timely manner may result in a delay of services provided.</p>	This finding is still applicable. See finding 2015-05.

**Department of Human Services
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Summary Schedule of Prior Audit Findings (continued)
June 30, 2015

<u>Recommendations</u>	<u>Status</u>
Part III – Federal Award Findings and Questioned Costs Section (continued)	
2014-05 Complete Eligibility Determinations in a Timely Manner (continued)	CFDA No.: 84.126 Program: Vocational Rehabilitation

Questioned Costs: None

Recommendations: Department personnel should be more diligent in complying with the policies and procedures in place. The Department should also provide adequate supervision of its caseworkers and enforce its policies and procedures to help ensure compliance with eligibility requirements.

Corrective Action Taken or Planned:

Corrective Action Taken:

Effective July 7, 2014, Albert Perez, Vocational Rehabilitation Administrator (VRA) implemented new procedures to ensure that the provision of VR services meets agency standards regarding Certification of Eligibility completion. On that same day, VR's new Automated Case Management System-AWARE went live. The new procedures were distributed to all counselors, referenced in the AWARE training packet, and discussed at the AWARE training. Frontline supervisors are required to review all cases moving beyond application and into eligibility. The supervisor documents in the case notes that the review was completed. VR services cannot begin until the supervisory reviews for the Certification of Eligibility and IPE have been completed. In addition, AWARE will not allow payment for any VR services that are not listed on the IPE.

**Department of Human Services
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Summary Schedule of Prior Audit Findings (continued)
June 30, 2015

Recommendations Status

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

**2014-05 Complete Eligibility Determinations in a
Timely Manner (continued)**

**CFDA No.: 84.126
Program: Vocational Rehabilitation**

In January 2015, a three-day workshop was attended by all Branch Administrators and Supervisors to assimilate VR's new procedures into VR's "New Counselor Training" and "Statewide Case Review" procedures.

Corrective Action Planned:

1. On March 18, 2015 a Branch Administrators' meeting is scheduled to discuss the progress of the implementation of the July 2014 procedures for each branch.
2. Statewide Case Reviews will be completed in April 2015.
3. New Counseling Training Part 1 will be completed in May 2015 and Part 2 will be completed in June 2015.

**Department of Human Services
State of Hawaii**

Summary Schedule of Prior Audit Findings (continued)
June 30, 2015

<u>Recommendations</u>	<u>Status</u>
Part III – Federal Award Findings and Questioned Costs Section (continued)	
2014-06 Procurement, Suspension and Debarment	CFDA No.: 84.126 Program: Vocational Rehabilitation
<p>Criteria: In accordance with Office of Management and Budget (OMB) 2 CFR 180.300, when a non-Federal entity enters into a covered transaction with an entity at a lower tier, the non-Federal entity must verify that the entity and its principals are not suspended or debarred or otherwise excluded from participating in the transaction by checking the Excluded Parties List System (EPLS), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity.</p>	
<p>Condition, cause, and context: We selected 7 of 30 contracts for procurement testing and noted that the Department did not verify that the 7 procured vendors were not suspended or debarred from Federal contracts. Program management asserted that they were not aware of the requirement to verify that the subrecipient was not suspended or debarred or otherwise excluded from Federal contracts. We searched the EPLS and verified that the procured vendors tested were not suspended or debarred.</p>	
<p>Effect: Failure to properly verify that the contracting agency is not an excluded party could result in payments to excluded parties.</p>	
<p>Questioned costs: None</p>	

This finding is still applicable. See finding 2015-06.

Department of Human Services State of Hawaii

Summary Schedule of Prior Audit Findings (continued)
June 30, 2015

<u>Recommendations</u>	<u>Status</u>
Part III – Federal Award Findings and Questioned Costs Section (continued)	
2014-06 Procurement, Suspension and Debarment (continued)	CFDA No.: 84.126 Program: Vocational Rehabilitation

Recommendation: We recommend the Department diligently comply with its policies and procedures in place to ensure compliance with the requirement.

Corrective Action Taken or Planned:

Corrective Action Taken:

In December 2014, a draft of the “Procurement Debarment and Suspension Compliance Policy/Procedures was completed. The draft was revised and finalized in February 2015.

The procedure states: “The Hawaii Division of Vocational Rehabilitation (DVR) Contract Administrator has primary responsibility for ensuring compliance with the requirements in 2 CFR Part 180 and 2 CFR Subtitle B, Part 3485. Effective January 1, 2015, before entering into any contract for goods or services that equals or exceeds (or could potentially equal or exceed) \$25,000, the Contract Administrator *must* obtain verification that the person/entity with whom Hawaii DVR intends to do business is not excluded or disqualified. This verification *must* also be completed on a yearly basis for contracts that exceed one year. Documentation of required System for Award Management (SAM) verifications *must* be maintained as part of the official procurement file for each contract and noted in the Contract Database on the individual contract worksheets that have been set up for each contract.”

**Department of Human Services
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Summary Schedule of Prior Audit Findings (continued)
June 30, 2015

Recommendations Status

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

**2014-06 Procurement, Suspension and Debarment
(continued)** **CFDA No.: 84.126**
Program: Vocational Rehabilitation

Effective January 1, 2015, the DVR Contract Administrator is verifying that the person/entity with whom Hawaii DVR intends to do business is not excluded or disqualified.

Corrective Action Planned:

1. The DVR Contract Administrator will verify the eligibility through SAM for all contractors receiving contracts equaling or exceeding \$25,000 that were executed prior to January 1, 2015. The verifications will be documented in the DVR Contract Database on the individual contract worksheets that have been set up for each contract. This verification process for current contractors will be completed no later than March 31, 2015.
2. Going forward, the DVR Contract Administrator will complete all verifications on a yearly basis for contracts that exceed one year. The yearly verifications will be completed no later than December 31 of each year.
3. Before execution of any new or amended contract that equals or exceeds \$25,000, SAM verification will be completed and documented in the official procurement file and DVR Contract Database.

**Department of Human Services
State of Hawaii**

Summary Schedule of Prior Audit Findings (continued)
June 30, 2015

<u>Recommendations</u>	<u>Status</u>
Part III – Federal Award Findings and Questioned Costs Section (continued)	
2014-07 Improve the Accuracy of Child Care Reimbursements	CFDA No.: 93.575 and 93.596 Program: Child Care and Development Fund

Criteria: 45 CFR Section 98.67 requires that the Department expend and account for Child Care and Development funds in accordance with their own laws and procedures for expending and accounting for their own funds. According to Chapter 17-798.2 of the Hawaii Administrative Rules (HAR), child care payments will include the monthly cost of child care per child, which will be made in accordance with the established fee scale and rate table as stipulated in the HAR.

Condition, cause and context: We selected 60 case files for testing and noted five instances where the information used in the Child Care Worksheet to calculate the eligible child care payments was incorrect. These errors resulted in the following:

- 1 instance in which benefit payments totaling \$840 was overpaid to participants.
- 4 instances where the income calculation was incorrect, however there was no impact to the benefits paid.

These errors were due to clerical mistakes or lack of proper oversight.

Effect: Failure to properly calculate child care payments resulted in over and under payments of benefits.

Questioned costs: \$840

This finding is still applicable. See finding 2015-24.

**Department of Human Services
State of Hawaii**

Summary Schedule of Prior Audit Findings (continued)
June 30, 2015

<u>Recommendations</u>	<u>Status</u>
Part III – Federal Award Findings and Questioned Costs Section (continued)	
2014-07 Improve the Accuracy of Child Care Reimbursements (continued)	CFDA No.: 93.575 and 93.596 Program: Child Care and Development Fund

Recommendation: The Department should be more diligent to ensure that child care payments are calculated properly. The Department should perform post payment reviews of a sample of child care payments to ensure accuracy and assess case worker performance.

Corrective Action Taken or Planned: Since mid-2013, the Child Care Program Office (CCPO) staff has been working with the subsidy contractor in standardization of the contractor's Quality Assurance (QA) review protocols and instrument to be used for continuous quality improvement assessment of performance and staff training needs regarding accuracy of payments issued. The contractor is required to do monthly QA reviews, with CCPO providing the list of selected cases to the contractor. CCPO staff conducts secondary sample case reviews of the contractor's cases for monitoring purposes and ensuring reliability of the contractor's QA process. The CCPO program staff continues to monitor the contractor and provide policy clarifications as needed to the contractor.

**Department of Human Services
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Summary Schedule of Prior Audit Findings (continued)
June 30, 2015

<u>Recommendations</u>	<u>Status</u>
Part III – Federal Award Findings and Questioned Costs Section (continued)	
2014-07 Improve the Accuracy of Child Care Reimbursements (continued)	CFDA No.: 93.575 and 93.596 Program: Child Care and Development Fund

The Department will also revisit seeking the assistance of DHS Quality Control (QC) unit to conduct secondary sample case reviews of the contractor's cases to assist in identifying areas in which additional training or policy clarification may be needed for the contract staff. CCPO had originally requested DHS QC assistance in mid-2012, however due to the caseload of the DHS QC unit it was determined that the DHS QC unit would not be able to assist CCPO in conducting secondary reviews until possibly 2015, dependent on the ability of DHS QC unit in filling vacant positions.

For the First-To-Work program that issues child care subsidies to families receiving financial assistance, staff from the Employment & Training Program Office has incorporated the child care subsidy portion into the established monthly and quarterly case review process. Of the cases that are sampled for their First-To-Work Work Verification Plan reviews, the First-To-Work staff are utilizing the common review instrument to determine whether the child care subsidy issued was properly authorized. Training was provided to the units to ensure consistency in how they are conducting the reviews. Training was also provided to the First-To-Work staff to reinforce policies regarding issuance of child care assistance for First-To-Work clients.

Department of Human Services State of Hawaii

Summary Schedule of Prior Audit Findings (continued)
June 30, 2015

<u>Recommendations</u>	<u>Status</u>
Part III – Federal Award Findings and Questioned Costs Section (continued)	
2014-08 Federal Funding Accountability and Transparency Act (FFATA) Reporting	CFDA No.: 93.575 and 93.596 Program: Child Care and Development Fund
<p>Criteria: 2 CFR Part 170 requires an entity to report each action that obligates \$25,000 or more in federal funds for a subaward to an entity. This information is to be reported no later than the end of the month following the month in which the obligation was made.</p> <p>Condition, cause and context: We selected 4 out of 7 subawards for testing and noted that the Department did not comply with the required reporting deadlines for all of the selected subawards. Program management indicated that they were aware of the requirement but due to miscommunication with the Fiscal Management Office (FMO) regarding the responsibilities of reporting, reports were not submitted in the required time frame.</p> <p>Effect: The Department did not comply with the FFATA reporting requirements.</p> <p>Questioned costs: None</p> <p>Recommendation: We recommend the Department develop and implement procedures to ensure appropriate communication between the program and FMO so that the required FFATA reports are submitted timely.</p>	This finding is still applicable. See finding 2015-09.

**Department of Human Services
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Summary Schedule of Prior Audit Findings (continued)
June 30, 2015

<u>Recommendations</u>	<u>Status</u>
Part III – Federal Award Findings and Questioned Costs Section (continued)	
2014-08 Federal Funding Accountability and Transparency Act (FFATA) Reporting (continued)	CFDA No.: 93.575 and 93.596 Program: Child Care and Development Fund
<p><i>Corrective Action Taken or Planned:</i> A training program for FFATA web reporting was developed in November 2014 by former Social Services Division (SSD) staff, with the first departmental training held in that same month. Training classes will be conducted in the future as needed. Programs have been instructed to conduct reporting as required and to report any problems or difficulties with FMO as soon as possible.</p>	

Department of Human Services State of Hawaii

Summary Schedule of Prior Audit Findings (continued)
June 30, 2015

<u>Recommendations</u>	<u>Status</u>
Part III – Federal Award Findings and Questioned Costs Section (continued)	
2014-09 Federal Funding Accountability and Transparency Act (FFATA) Reporting	CFDA No.: 93.667 Program: Social Services Block Grant
<p>Criteria: 2 CFR Part 170 requires an entity to report each action that obligates \$25,000 or more in federal funds for a subaward to an entity. This information is to be reported no later than the end of the month following the month in which the obligation was made.</p> <p>Condition, cause and context: Program management indicated that they did not comply with the FFATA reporting requirements for all subawards. Program management was aware of the FFATA reporting requirements, however due to miscommunication with the Fiscal Management Office (FMO) regarding the responsibilities of reporting, no reports were submitted.</p> <p>Effect: The Department did not comply with the FFATA reporting requirements.</p> <p>Questioned costs: None</p> <p>Recommendations: We recommend the Department develop and implement procedures to ensure appropriate communication between the program and FMO so that the required FFATA reports are submitted timely.</p>	This finding is still applicable. See finding 2015-10.

**Department of Human Services
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Summary Schedule of Prior Audit Findings (continued)
June 30, 2015

<u>Recommendations</u>	<u>Status</u>
Part III – Federal Award Findings and Questioned Costs Section (continued)	
2014-09 Federal Funding Accountability and Transparency Act (FFATA) Reporting (continued)	CFDA No.: 93.667 Program: Social Services Block Grant
<p><i>Corrective Action Taken or Planned:</i> A training program for FFATA web reporting was developed in November 2014 by former Social Services Division (SSD) staff, with the first departmental training held in that same month. Training classes will be conducted in the future as needed. Programs have been instructed to conduct reporting as required and to report any problems or difficulties with FMO as soon as possible.</p>	

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Summary Schedule of Prior Audit Findings (continued)
June 30, 2015

<u>Recommendations</u>	<u>Status</u>
Part III – Federal Award Findings and Questioned Costs Section (continued)	
2014-10 Tracking Earmarked Funds	CFDA No.: 93.667 Program: Social Services Block Grant
<p>Criteria: 42 USC 604(d)(3)(A) and 9902(2) requires an entity to use all of the amount transferred in from the Temporary Assistance for Needy Families (TANF) (CDFA 93.558) program to provides services to children or their families whose income is less than 200 percent of the official poverty guideline as revised annually by U.S. Department of Health and Human Services.</p> <p>Condition, cause and context: The Social Services Block Grant program receives transfers of funds from the TANF program to provide benefits to participants subject to the aforementioned income requirement. Although the Social Services Block Grant program used the TANF funds for allowable activities, we noted that policies and procedures to ensure compliance with the earmarking requirement were put into place near the end of the current fiscal year. However, given the timing in which the policies and procedures established, program management was unable to comply with the requirement for the current fiscal year.</p> <p>Effect: Failure to monitor and document the program participant's income resulted in the non-compliance.</p> <p>Questioned costs: \$7,890,000</p>	

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<u>Recommendations</u>	<u>Status</u>
Part III – Federal Award Findings and Questioned Costs Section (continued)	
2014-10 Tracking Earmarked Funds (continued)	CFDA No.: 93.667 Program: Social Services Block Grant
<p>Recommendations: We recommend the DHS adhere to its established policies and procedures to ensure that TANF funds are spent in accordance with the requirements.</p> <p>Corrective Action Taken or Planned: TANF eligibility and tracking procedures were completed in early April 2014. Training on the new procedures was conducted for service providers on April 15, 2014, for implementation effective May 1, 2014. In June and July 2014, SSD's tracking procedures were used to check TANF eligibility status for clients in SFY 2013 and SFY 2014.</p> <p>A revised TANF reporting form was issued in August 2014. Procedures will continue to be monitored and revised as needed to ensure compliance.</p>	

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Summary Schedule of Prior Audit Findings (continued)
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<u>Recommendations</u>	<u>Status</u>
Part III – Federal Award Findings and Questioned Costs Section (continued)	
2014-11 Proper Determination of Benefit Amount	CFDA No.: 93.659 Program: Adoption Assistance
<p>Criteria: 42 USC 673(a)(3) states that the amount of the payments to be made in any case under clauses (i) and (ii) of paragraph (1)(B) shall be determined through agreement between the adoptive parents and the State or local agency administering the program under this section, which shall take into consideration the circumstances of the adopting parents and the needs of the child being adopted, and may be readjusted periodically, with the concurrence of the adopting parents (which may be specified in the adoption assistance agreement), depending upon changes in such circumstances.</p>	This finding is still applicable. See finding 2015-12.

Condition, cause and context: Program participant benefit payments are governed by a signed “Adoption Assistance Agreement” (Agreement). Benefit payments under the Agreement may be further supplemented due to difficulties in caring for a child as determined by a caseworker on an as need basis and documented on the “Difficulty of Care” (DOC) worksheet. During our audit, we selected 60 cases for testing and noted the following:

- 3 instances where the amount per the Agreement was lower than the amount paid resulting in an overpayment of benefits of \$213 per month, or \$2,556 for the year.

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Summary Schedule of Prior Audit Findings (continued)
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<u>Recommendations</u>	<u>Status</u>
Part III – Federal Award Findings and Questioned Costs Section (continued)	
2014-11 Proper Determination of Benefit Amount (continued)	CFDA No.: 93.659 Program: Adoption Assistance

- 1 instance where Part II of the DOC was missing resulting in an overpayment of benefits of \$570 per month, or \$6,840 for the year.
- 1 instance where the amount per the Agreement was blank. As the agreement was not properly completed, the monthly subsidy should not have been paid resulting in an overpayment of benefits of \$529 per month, or \$6,348 for the year.

Although the Department has policies and procedures in place to ensure that proper support for the monthly adoption assistance payment is maintained, there was a lack of diligence in complying with the policies and procedures.

Effect: Failure to properly document and maintain the support for the Adoption Assistance subsidy payments limits the ability of the Department to demonstrate compliance with the requirements.

Questioned costs: \$15,744

Recommendations: We recommend the Department be more diligent in following its existing policies and procedures.

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Summary Schedule of Prior Audit Findings (continued)
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<u>Recommendations</u>	<u>Status</u>
Part III – Federal Award Findings and Questioned Costs Section (continued)	
2014-11 Proper Determination of Benefit Amount (continued)	CFDA No.: 93.659 Program: Adoption Assistance

Corrective Action Taken or Planned:

Our plans to reduce and/or eliminate these errors include:

1. Refresher trainings for staff on existing policies and procedures.
2. Transitioning to electronic agreement forms that will provide immediate error feedback and automatic transfer of information to payment screens.
3. A Social Services Division (SSD) monitor will review a random sample of case files and compare with corresponding payment screens in order to catch individual errors as well as error trends for corrections.

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Summary Schedule of Prior Audit Findings (continued)
June 30, 2015

<u>Recommendations</u>	<u>Status</u>
Part III – Federal Award Findings and Questioned Costs Section (continued)	
2014-12 Level of Effort – Maintenance of Effort	CFDA No.: 93.659 Program: Adoption Assistance
<p>Criteria: Title 42 USC 673(a)(8) requires the State to calculate the savings resulting from the application of the eligibility requirements of Title 42 USC 673(a)(2)(A)(ii) and to utilize the savings to provide any service permitted under Title IV-B or Title IV-E, provided the savings are used to supplement and not supplant any funds used to provide services under these parts.</p> <p>The Adoption Assistance program has determined that certain children are considered eligible in accordance with eligibility criteria described in Title 42 USC 673(a)(2)(A)(ii).</p> <p>Condition, cause and context: During our audit, we noted that program management was not aware of this requirement and, therefore, did not calculate and/or expend any related savings. Consequently, program management was not able to demonstrate compliance with this requirement.</p> <p>Effect: Failure to calculate and/or expend any savings under these provisions resulted in noncompliance with this requirement.</p> <p>Questioned costs: None</p>	This finding is no longer applicable.

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Summary Schedule of Prior Audit Findings (continued)
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<u>Recommendations</u>	<u>Status</u>
Part III – Federal Award Findings and Questioned Costs Section (continued)	
2014-12 Level of Effort – Maintenance of Effort (continued)	CFDA No.: 93.659 Program: Adoption Assistance

Recommendations: We recommend DHS review and identify program requirements to develop and implement procedures to ensure that the Department complies with the Level of Effort requirements per Title 42 USC 673(a)(8).

Corrective Action Taken or Planned:

Child Welfare Services (CWS) Administrators have reviewed and identified program requirements. Social Services Division (SSD) has identified staff responsible for compliance with the Level of Effort requirements and has set-up a checks and balances system that involves program administrators and fiscal staff checking each other's calculations and compliance.

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Summary Schedule of Prior Audit Findings (continued)
June 30, 2015

<u>Recommendations</u>	<u>Status</u>
Part III – Federal Award Findings and Questioned Costs Section (continued)	
2014-13 Maintaining Proper Case Documentation to Support Eligibility Determinations	CFDA No.: 93.558 Program: Temporary Assistance for Needy Families

Criteria: The State of Hawaii Temporary Assistance for Needy Families State Plan provides the rules and regulations for the eligibility requirements of the TANF program subject to the requirements of 45 CFR 206.10. To apply for assistance, applicants must complete and file an application form, be interviewed by a caseworker, and have certain information verified. Further, to be eligible, the applicant must meet specific financial requirements.

Condition, cause and context: We selected 60 case files for testing and noted the following:

- 4 instances where the case file did not contain the application and interview form, including 1 instance where the case file did not contain the birth certificate and State of Hawaii identification (ID). The missing documents resulted in benefit overpayment of \$20,413.
- 1 instance where the case file did not contain the interview form and the birth certificate and/or ID resulting in a benefit overpayment of \$6,433.
- 5 instances where the case file did not contain the birth certificate and ID resulting in benefit overpayments of \$21,851.

This finding is still applicable. See finding 2015-13.

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Summary Schedule of Prior Audit Findings (continued)
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<u>Recommendations</u>	<u>Status</u>
Part III – Federal Award Findings and Questioned Costs Section (continued)	
2014-13 Maintaining Proper Case Documentation to Support Eligibility Determinations (continued)	CFDA No.: 93.558 Program: Temporary Assistance for Needy Families
<ul style="list-style-type: none">• 3 instances where the case file did not contain income support resulting in benefit overpayments of \$3,362.• 1 instance where the benefit amount was not calculated correctly resulted in a benefit overpayment of \$184. <p>Program management indicated that there are policies and procedures in place regarding the application and benefit calculation but these policies and procedures were not consistently complied with.</p> <p>Effect: Failure to follow its policies and procedures limits the ability of the Department to demonstrate compliance with the requirements. Further, there is a risk of inaccurate eligibility determinations resulting in ineligible participants receiving benefits or eligible participants receiving excess or deficient benefit amounts.</p> <p>Questioned costs: \$52,243</p> <p>Recommendation: We also recommend the Department diligently comply with its policies and procedures.</p>	

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Summary Schedule of Prior Audit Findings (continued)
June 30, 2015

<u>Recommendations</u>	<u>Status</u>
Part III – Federal Award Findings and Questioned Costs Section (continued)	
2014-13 Maintaining Proper Case Documentation to Support Eligibility Determinations (continued)	CFDA No.: 93.558 Program: Temporary Assistance for Needy Families

Corrective Action Taken or Planned:

Financial Assistance Program (FAP) will notify staff to:

- Scan all applications, Six Month Report Form (SMRF) and Eligibility Review (ER) forms, and corresponding DHS 1006, Interview Documentation forms into the electronic case files (ECF) upon disposition or determination of continued eligibility;
- Document on case notes the method in which clients' ID & birth certificates are verified and update the Hawaii Automated Welfare Information (HAWI) system with appropriate code; and
- Document income information on case notes or DHS 1006.

FAP will also work closely with Staff Development Office regarding documenting & scanning.

Hawaii is currently in the process of designing a new welfare system which includes on-line documentation. Anticipated implementation is in 2-3 years.

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Summary Schedule of Prior Audit Findings (continued)
June 30, 2015

<u>Recommendations</u>	<u>Status</u>
Part III – Federal Award Findings and Questioned Costs Section (continued)	
2014-14 Quarterly Reporting	CFDA No.: 93.558 Program: Temporary Assistance for Needy Families
<p>Criteria: 45 CFR 265.3 requires each State to collect on a monthly basis, and file on a quarterly basis, the data specified in the Temporary Assistance for Needy Families (TANF) Data Report.</p> <p>Condition, cause and context: We selected 4 quarterly reports for testing and further selected 60 cases files which supported the information included in the Data Reports noting the following:</p> <ul style="list-style-type: none">• For 1 quarterly report, the key report line item “parent with minor child in the family” was incorrectly reported for 1 case file.• For 3 quarterly reports, the key line item “receives subsidized child care” was incorrectly reported for 5 case files. <p>Program management indicated that the errors were due to a coding error with the internal system which was subsequently fixed.</p> <p>Effect: Failure to properly report the correct data resulted in noncompliance with the requirement. Further, 45 CFR 265.8 allows for a potential penalty to be imposed when the Department fails to comply with the requirement.</p> <p>Questioned costs: None</p>	This finding is still applicable. See finding 2015-15.

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<u>Recommendations</u>	<u>Status</u>
Part III – Federal Award Findings and Questioned Costs Section (continued)	
2014-14 Quarterly Reporting (continued)	CFDA No.: 93.558 Program: Temporary Assistance for Needy Families

Recommendation: We recommend the Department review the reports and possibly sample key report line items to ensure they are completed accurately.

Corrective Action Plan: Corrections were made to the coding of the Federal Data Report for Data Element 17. Financial Assistance Program (FAP) and Employment and Training Program Office (ETPO) will continue to work together in reviewing the error reports received from HHS-ACF. FAP and ETPO will meet with the Office of Information and Technology (OIT) when there are necessary changes to be made with the coding.

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<u>Recommendations</u>	<u>Status</u>
Part III – Federal Award Findings and Questioned Costs Section (continued)	
2014-15 Federal Funding Accountability and Transparency Act (FFATA) Reporting	CFDA No.: 93.558 Program: Temporary Assistance for Needy Families

Criteria: 2 CFR Part 170 requires an entity to report each action that obligates \$25,000 or more in federal funds for a subaward to an entity. This information is to be reported no later than the end of the month following the month in which the obligation was made.

Condition, cause and context: We selected 8 out of 22 subawards for testing and noted that the Department did not comply with the required reporting deadlines for all of the selected subawards. Program management indicated that they were aware of the requirement however due to miscommunication with the Fiscal Management Office (FMO) regarding the responsibilities of reporting, reports were not submitted in the required time frame.

Effect: The Department did not comply with the FFATA reporting requirements.

Questioned costs: None

Recommendation: We recommend the Department develop and implement procedures to ensure that appropriate communication between the program and FMO so that the required FFATA reports are submitted timely.

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June 30, 2015

<u>Recommendations</u>	<u>Status</u>
Part III – Federal Award Findings and Questioned Costs Section (continued)	
2014-15 Federal Funding Accountability and Transparency Act (FFATA) Reporting (continued)	CFDA No.: 93.558 Program: Temporary Assistance for Needy Families
<p><i>Corrective Action Taken or Planned:</i> A training program for FFATA web reporting was developed in November 2014 by former Social Services Division (SSD) staff, with the first departmental training held in that same month. Training classes will be conducted in the future as needed. Programs have been instructed to conduct reporting as required and to report any problems or difficulties with FMO as soon as possible.</p>	

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Summary Schedule of Prior Audit Findings (continued)
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<u>Recommendations</u>	<u>Status</u>
Part III – Federal Award Findings and Questioned Costs Section (continued)	
2014-16 Maintaining Proper Case Documentation to Support Compliance with Child Support Non-Cooperation Requirement	CFDA No.: 93.558 Program: Temporary Assistance for Needy Families
<p>Criteria: 45 CFR section 264.30 requires the Title IV-A agency to take appropriate action if the Title IV-D agency determines that an individual is not cooperating with the child support enforcement requirements.</p> <p>Condition, cause and context: The Child Support Enforcement Agency (CSEA), the Department's Title IV-D agency, will identify TANF participants (cases) as non-cooperating in the HAWI system. CSEA provided us a listing of non-cooperating participants. We selected 60 participants from this list, noting 26 did not have documentation in their file to indicate whether TANF took appropriate action regarding their non-cooperation.</p> <p>Although the Department has policies and procedures in place which require the program to maintain the required documents or to ensure that appropriate benefit reduction actions are taken, there was a lack of diligence in either filing the required documents related to non-cooperation or stopping benefit payments.</p> <p>Effect: Failure to properly maintain the required documentation on file limits the ability of the Department to demonstrate compliance with the requirements.</p>	This finding is still applicable. See finding 2015-17.

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Summary Schedule of Prior Audit Findings (continued)
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<u>Recommendations</u>	<u>Status</u>
Part III – Federal Award Findings and Questioned Costs Section (continued)	
2014-16 Maintaining Proper Case Documentation to Support Compliance with Child Support Non-Cooperation Requirement (continued)	CFDA No.: 93.558 Program: Temporary Assistance for Needy Families
<i>Questioned costs:</i> \$61,735	
Recommendation: We recommend the Department diligently perform the required procedures and maintain the appropriate documents to comply with its policies and procedures.	
Corrective Action Taken or Planned: Financial Assistance Program (FAP) is currently in discussions with Corporation Council (non-cooperation in establishing paternity) and the Child Support Enforcement Agency (non-cooperation in establishing obligation) regarding the best practice in getting the information to the line staff.	
Once a final decision is reached, FAP will notify staff via policy clarification detailing the method that processing center will receive the information, the actions the line staff must take to ensure the case is correct (closure), and the requirements that must be provided should the client reapply for benefits.	
In addition, FAP will work with Staff Development Office (SDO) to include child support non-cooperation consequences and actions to take to correct the case status in future training sessions with the staff.	

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<u>Recommendations</u>	<u>Status</u>
Part III – Federal Award Findings and Questioned Costs Section (continued)	
2014-17 Income Eligibility and Verification System	CFDA No.: 93.558 Program: Temporary Assistance for Needy Families

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

Condition, cause and context: We selected 60 case files for testing and noted 4 instances where the Department did not properly use IEVS to re-evaluate the initial benefit calculations. KMH noted the following:

- 3 instances in which benefit payments totaling \$2,208 were overpaid to participants.
- 1 instance in which benefit payments totaling \$948 were underpaid to participants.

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

Effect: Failure to properly use IEVS to evaluate benefit amount resulted in over and under payments of benefits.

Questioned costs: \$2,208

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Summary Schedule of Prior Audit Findings (continued)
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<u>Recommendations</u>	<u>Status</u>
Part III – Federal Award Findings and Questioned Costs Section (continued)	
2014-17 Income Eligibility and Verification System (continued)	CFDA No.: 93.558 Program: Temporary Assistance for Needy Families
<p><i>Recommendation:</i> The Department should be more diligent in consistently following its policies and procedures.</p> <p><i>Corrective Action Taken or Planned:</i> Financial Assistance Program (FAP) will provide an updated policy clarification on IEVS procedures and requirements.</p>	

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Summary Schedule of Prior Audit Findings (continued)
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<u>Recommendations</u>	<u>Status</u>
Part III – Federal Award Findings and Questioned Costs Section (continued)	
2014-18 Improve the Monitoring of Required Work Participation Hours	CFDA No.: 93.558 Program: Temporary Assistance for Needy Families

Criteria: In accordance with 45 CFR sections 261.13 - .14, if an individual fails without good cause, to comply with an individual responsibility plan that he or she has signed, the State may reduce the amount of assistance otherwise payable to the family, by whatever amount it considers appropriate. Further, the State is required to reduce or terminate the amount of assistance payable to a family, subject to any good cause or other exceptions the State may establish, if an individual refuses to engage in work activity. Tracking and reporting of work activity is governed by 45 CFR sections 261.60 - .61.

Condition, cause and context: We selected 60 case files for testing and noted the following:

- 10 instances where work activity hours were understated including 1 instance where a participant did not meet the required work activity hours.
- 7 instances where work activity hours were overstated including 1 instance where a participant did not meet the required work activity hours.
- 1 instance where work activity hours reported were correct but the participant did not meet the required work activity.
- 2 instances where there was no documentation of work activity.

This finding is still applicable. See finding 2015-18.

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Summary Schedule of Prior Audit Findings (continued)
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<u>Recommendations</u>	<u>Status</u>
Part III – Federal Award Findings and Questioned Costs Section (continued)	
2014-18 Improve the Monitoring of Required Work Participation Hours (continued)	CFDA No.: 93.558 Program: Temporary Assistance for Needy Families

Although the Department has established policies and procedures in place to ensure that accurate work activity is tracked and reported, the Department did not follow existing policies and procedures.

Effect: Failure to properly track and report the amount of work activity by participants resulted in noncompliance with the requirement. Further, the Department of Health and Human Services may penalize a State by an amount not less than one percent and not more than five percent of the State Family Assistance Grant for violation of 45 CFR sections 261.13-14 and 261.60-61.

Questioned costs: None

Recommendation: The Department should diligently apply the policies and procedures in place to comply with the Work Verification Plan.

Corrective Action Taken or Planned:

The program office concurs with the errors that were found and therefore plans to:

1. Continue quality assurance case reviews/audits in accordance with the Work Verification Plan (WVP);

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<u>Recommendations</u>	<u>Status</u>
Part III – Federal Award Findings and Questioned Costs Section (continued)	
2014-18 Improve the Monitoring of Required Work Participation Hours (continued)	CFDA No.: 93.558 Program: Temporary Assistance for Needy Families
<ol style="list-style-type: none">2. Schedule annual or semi-annual meetings with individual units as part of the onsite audits so they are provided opportunities to ask questions, request clarifications, and provided suggestions on how current operational procedures may be improved;3. Initiate discussion with the administrators, who oversee the First-To-Work (FTW) and First-To-Work – Vocational Rehabilitation (FTW-VR) units, to develop and implement appropriate corrective action plans for units with high error rates;4. Work with the Staff Development Office (SDO) to review the training materials and ensure common errors found through case reviews and audits are addressed and reviewed thoroughly adding emphasis on proper application of the WVP;5. Continue issuing Policy Clarifications (PCs) to address issues as it relates to the implementation of the WVP, application of administrative policies and program procedures. The PCs will include instructions when determined necessary; and6. Continue to revise program forms in accordance with the WVP so participants are able to submit proper verification of activity hours, and assist staff to calculate and enter accurate hours into the Hawaii Automated Network for Assistance (HANA) system. Furthermore, operational procedures will be revised to incorporate PCs that were previously published.	

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<u>Recommendations</u>	<u>Status</u>
Part III – Federal Award Findings and Questioned Costs Section (continued)	
2014-19 Maintaining Proper Case Documentation to Support Eligibility Determinations	CFDA No.: 93.568 Program: Low Income Home Energy Assistance

Criteria: 42 USC Chapter 94 Section 8624(b)(2) allows the Department to provide assistance to (a) households in which one or more individuals are receiving Temporary Assistance for Needy Families (TANF), Supplemental Security Income (SSI), Supplemental Nutrition Assistance Program (SNAP) benefits, or certain needs-tested veterans benefits; or (b) households with incomes which do not exceed the greater of 150 percent of the State's established poverty level, or 60 percent of the State median income. Further 42 USC Chapter 94 Section (d) requires that the State shall expend funds in accordance with the State plan under this subchapter or in accordance with revisions applicable to such a plan.

Under the State plan (2013 LIHEAP Detailed Model Plan), item 5 of the 'Additional Eligibility Requirements' requires that all adult members sign the application in order to be considered eligible for the LIHEAP benefit payment. Further noted that the State plan also requires that households must provide verification of their liquid assets and those households are subject to an asset(s) test in order to be deemed eligible for the LIHEAP benefit program.

Condition, cause and context: We selected 60 case files for testing and noted the following:

- 5 instances where the income information used in the LIHEAP Determination form to

This finding is still applicable. See finding 2015-19.

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Summary Schedule of Prior Audit Findings (continued)
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<u>Recommendations</u>	<u>Status</u>
Part III – Federal Award Findings and Questioned Costs Section (continued)	
2014-19 Maintaining Proper Case Documentation to Support Eligibility Determinations (continued)	CFDA No.: 93.568 Program: Low Income Home Energy Assistance

calculate the eligible credit amount was incorrect, resulting in the overpayment of benefits in the amount of \$600.

- 1 instance where all of the adult members in the household did not sign the application, which should have resulted in the household being deemed ineligible resulting in the overpayment of benefits of \$750.
- 1 instance where the calculation to determine the amount of liquid assets for the household was incorrect. This calculation error did not impact the determination of eligibility or benefit payments.

Although the Department has policies and procedures in place to ensure that eligibility determinations and benefit calculations are performed accurately, there was a lack of diligence in following the policies and procedures.

Effect: Failure to follow the policies and procedures resulted in inaccurate eligibility determinations and benefit overpayments.

Questioned costs: \$1,350

Recommendation: We recommend the Department be more diligent in ensuring that eligibility determinations and benefit calculations are performed in accordance with the established policies and procedures.

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<u>Recommendations</u>	<u>Status</u>
Part III – Federal Award Findings and Questioned Costs Section (continued)	
2014-19 Maintaining Proper Case Documentation to Support Eligibility Determinations (continued)	CFDA No.: 93.568 Program: Low Income Home Energy Assistance

Corrective Action Taken or Planned: The contract with the contractor responsible for the errors was not renewed. Corrective action planned is to train staff on income determination and to be sure to collect all adult signatures on the application. Training both by the Low Income Home Energy Assistance Program (LIHEAP) coordinator and organizations will be conducted. We will also provide employees with a handbook with training materials, procedures, and a hard copy of the training, forms, examples, and desk aids. Emphasis will be put on determinations being calculated correctly. All organizations have guidelines in place to have a multi-level check system prior to data entry and case approval/denial.

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June 30, 2015

<u>Recommendations</u>	<u>Status</u>
Part III – Federal Award Findings and Questioned Costs Section (continued)	
2014-20 Maintaining Proper Case Documentation to Support Eligibility Determinations	CFDA No.: 93.778 Program: Medical Assistance Program
<p>Criteria: The Department is required to include in each applicant's case record facts to support the Department's decision on his application (42 CFR Part 435.913). Included in each applicant's case record are documents verifying the relevant information in initial eligibility determinations and redeterminations (42 CFR Part 435.916 and 42 CFR Part 435.940 – 960).</p> <p>Condition, cause and context: We selected 65 case files for testing and noted that 1 case file could not be located and, therefore, we could not test the accuracy of the eligibility re-determination resulting in the overpayment of benefits totaling \$10,440.</p> <p>Although the Department has policies and procedures in place to ensure that case files are established for each applicant/participant and that required eligibility documentation is on file, the Department did not follow existing policies and procedures.</p> <p>Effect: Failure to properly maintain the required case files limits the ability of the Department to demonstrate compliance with the requirements increasing the risk of inaccurate eligibility determinations resulting in ineligible participants receiving benefits.</p> <p>Questioned costs: \$10,440</p>	This finding is no longer applicable.

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<u>Recommendations</u>	<u>Status</u>
Part III – Federal Award Findings and Questioned Costs Section (continued)	
2014-20 Maintaining Proper Case Documentation to Support Eligibility Determinations (continued)	CFDA No.: 93.778 Program: Medical Assistance Program

Recommendations: We recommend DHS be more diligent in ensuring that its files are properly maintained. We also recommend DHS diligently perform the required procedures and maintain the appropriate documents related to initial and re-determinations of eligibility.

Corrective Action Taken or Planned:

As noted in the auditor's findings, 1 case file could not be initially located. The Financial Assistance Program terminated effective 07/31/02. The Hawaii Automated Welfare Information (HAWI) System auto-created the Medical Assistance Program effective 07/01/02. The beneficiary continues to remain eligible to present. The HAWI case record should be with the Benefit, Employment and Support Services Division (BESSD) as the Med-QUEST Division (MQD) never had a case record. All supervisory staff has been instructed to properly maintain case files assigned to their unit. Procedures are in place to maintain appropriate documents related to initial and re-determinations of eligibility.

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Summary Schedule of Prior Audit Findings (continued)
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<u>Recommendations</u>	<u>Status</u>
Part III – Federal Award Findings and Questioned Costs Section (continued)	
2014-21 Monitor the Medicaid Drug Rebate Program	CFDA No.: 93.778 Program: Medical Assistance Program
<p><i>Criteria:</i> The Medicaid Drug Rebate Program, as set forth in Section 1927 of the Social Security Act requires DHS to maintain drug utilization data that identifies the number of units of each covered outpatient drug for which DHS reimbursed providers. The number of units is applied to the unit rebate amount to determine the actual rebate amount due from each manufacturer.</p>	
<p><i>Condition, cause and context:</i> DHS subcontracts the daily operations of the drug rebate program to Xerox, including billing, collection, accounting, and dispute resolution. While the day to day operations of the drug rebate program have been subcontracted to Xerox, DHS is still ultimately accountable for the drug rebate program. We noted that DHS does not perform monitoring of subcontractor activities. Due to the complexity involved in the drug rebate calculations, DHS does not have the necessary resources and staffing requirements to perform monitoring procedures of subcontractor activities.</p>	
<p><i>Effect:</i> The lack of subcontractor monitoring activities may result in the risk that the drug rebates are not being calculated correctly and accurately reported.</p>	
<p><i>Questioned costs:</i> None</p>	

**Department of Human Services
State of Hawaii**

Summary Schedule of Prior Audit Findings (continued)
June 30, 2015

<u>Recommendations</u>	<u>Status</u>
Part III – Federal Award Findings and Questioned Costs Section (continued)	
2014-21 Monitor the Medicaid Drug Rebate Program (continued)	CFDA No.: 93.778 Program: Medical Assistance Program

Recommendations: We recommend DHS be more diligent in ensuring that its files are properly maintained. We also recommend DHS diligently perform the required procedures and maintain the appropriate documents related to initial and re-determinations of eligibility.

Corrective Action Taken or Planned:

As noted in the auditor's findings, 1 case file could not be initially located. The Financial Assistance Program terminated effective 07/31/02. The Hawaii Automated Welfare Information (HAWI) System auto-created the Medical Assistance Program effective 07/01/02. The beneficiary continues to remain eligible to present. The HAWI case record should be with the Benefit, Employment and Support Services Division (BESSD) as the Med-QUEST Division (MQD) never had a case record. All supervisory staff has been instructed to properly maintain case files assigned to their unit. Procedures are in place to maintain appropriate documents related to initial and re-determinations of eligibility.