

**Department of Human Services
State of Hawaii**

Financial Statements
June 30, 2019
Together with Independent Auditor's Report

Submitted by

**THE AUDITOR
STATE OF HAWAII**



A Hawaii Limited Liability Partnership

March 16, 2020

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

Dear Mr. Kondo:

This is our report on the financial audit of the Department of Human Services of the State of Hawaii (DHS) as of and for the fiscal year ended June 30, 2019. Our audit was performed in accordance with the terms of our contract with the State of Hawaii and with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), *Government Auditing Standards*, Audits of States, Local Governments, and Non-Profit Organizations.

OBJECTIVES OF THE AUDIT

The primary purpose of our audit was to form an opinion on the fairness of the presentation of the DHS's basic financial statements as of and for the fiscal year ended June 30, 2019, and to comply with the requirements of the Uniform Guidance. The objectives of the audit were as follows:

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

SCOPE OF THE AUDIT

Our audit was performed in accordance with auditing standards generally accepted in the United States of America as prescribed by the American Institute of Certified Public Accountants; *Government Auditing Standards*, issued by the Comptroller General of the United States; and the provisions of the Uniform Guidance. The scope of our audit included an examination of the transactions and accounting records of the DHS as of and for the fiscal year ended June 30, 2019.

ORGANIZATION OF THE REPORT

This report is presented in six parts as follows:

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

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

Sincerely,



Wilcox Choy
Partner

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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, 2019, 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, 2019, and the respective changes in financial position, and the respective budgetary comparison for the General Fund and Special Revenue Funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the DHS are intended to present the financial position, the changes in financial position, and budgetary comparisons, of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Hawaii that is attributable to the transactions of the DHS. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2019, the changes in financial position, and budgetary comparisons, for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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, Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

The schedule of expenditures of federal awards has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2020 on our consideration of the DHS's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of DHS's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the DHS's internal control over financial reporting and compliance.

KMH LLP

KMH LLP

Honolulu, Hawaii
March 16, 2020

Department of Human Services State of Hawaii

Management Discussion and Analysis
June 30, 2019

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, 2019. 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, 2019

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 statement.

Department of Human Services State of Hawaii

Management Discussion and Analysis (continued)
June 30, 2019

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, 2019 and 2018.

Condensed Statement of Net Position		
	2019	2018
Current Assets	\$ 522,635,885	\$ 454,835,250
Capital Assets, net	70,344,914	79,736,054
Total assets	<u>\$ 592,980,799</u>	<u>\$ 534,571,304</u>
Current Liabilities	\$ 319,840,735	\$ 234,595,450
Non-current Liabilities	8,036,503	7,963,366
Total liabilities	<u>327,877,238</u>	<u>242,558,816</u>
Net Position:		
Invested in capital assets	70,344,914	79,736,054
Unrestricted	194,758,647	212,276,434
Total net position	<u>265,103,561</u>	<u>292,012,488</u>
Total liabilities and net position	<u>\$ 592,980,799</u>	<u>\$ 534,571,304</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, 2019, the combined net position of the DHS decreased by approximately \$27 million.

The unrestricted net position of the DHS was approximately \$194.8 million as of June 30, 2019. The largest liabilities as of June 30, 2019, are the federal expenditures incurred but not yet reimbursed by the federal government as of June 30, 2019 and the estimated amount of medical assistance service provided as of June 30, 2019, for which the related claims and capitation fees will be processed and paid subsequent to June 30, 2019. For the unreimbursed federal expenses as of June 30, 2019 of \$150.1 million, the majority is for the non-medical assistance programs, of which \$61.6 million will be received after June 30, 2019. Of the estimated \$68.1 million of medical assistance payable, the State's share of these costs is approximately \$35.3 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 \$13.4 million as of June 30, 2019, 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, 2019.

Department of Human Services State of Hawaii

Management Discussion and Analysis (continued)
June 30, 2019

The DHS reported a total of approximately \$70.3 million in net position invested in capital assets as of June 30, 2019. 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, 2019.

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.

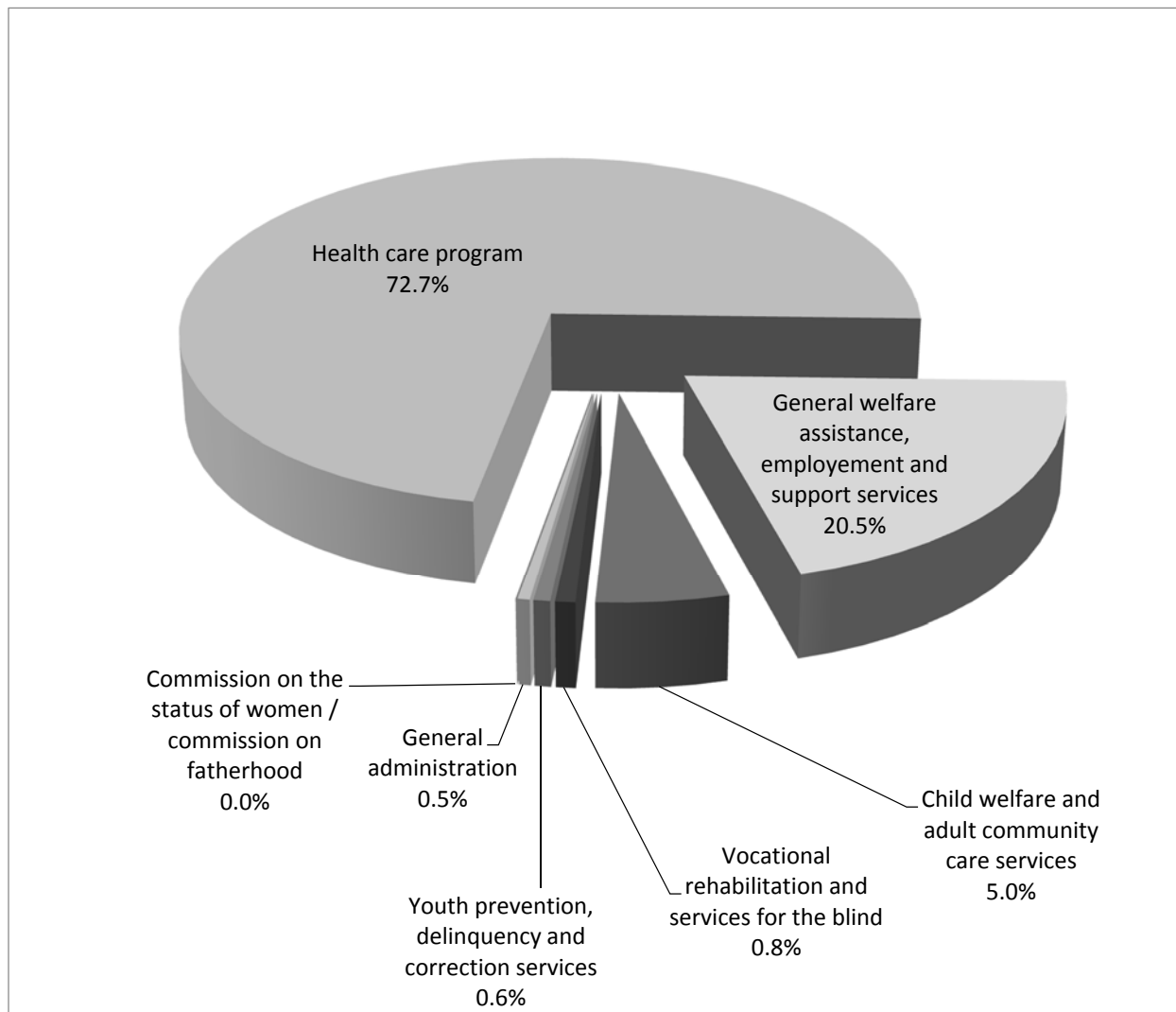
Changes in Net Position

	2019	2018	Percent Change
Revenues:			
Program revenues	\$ 2,211,525,810	\$ 2,333,114,706	(5.21)%
General revenues	1,208,098,651	1,392,536,417	(13.24)%
Total revenues	<u>3,419,624,461</u>	<u>3,725,651,123</u>	(8.21)%
Expenses:			
Health care programs	2,517,247,847	2,688,545,711	(6.37)%
General welfare assistance, employment and support services	709,011,947	708,229,744	0.11%
Child welfare and adult community care services	173,441,630	161,573,452	7.35%
Vocational rehabilitation and services for the blind	26,218,463	30,933,701	(15.24)%
Youth prevention, delinquency and correction services	21,755,168	21,715,682	0.18%
General administration	16,083,928	15,265,384	5.36%
Commission on the status of women / commission on fatherhood	211,125	298,336	(29.23)%
Total expenses	<u>3,463,970,108</u>	<u>3,626,562,010</u>	(4.48)%
Change in net position, before transfers	<u>\$ (44,345,647)</u>	<u>\$ 99,089,113</u>	

Department of Human Services State of Hawaii

Management Discussion and Analysis (continued)
June 30, 2019

The total cost of all programs and services was approximately \$3.46 billion, a 4.48% decrease from the prior fiscal year. Health care and general welfare assistance programs comprised 72.7% and 20.5%, respectively, of the total costs. The following chart presents each major activity as a percent of the total cost of all DHS activities:

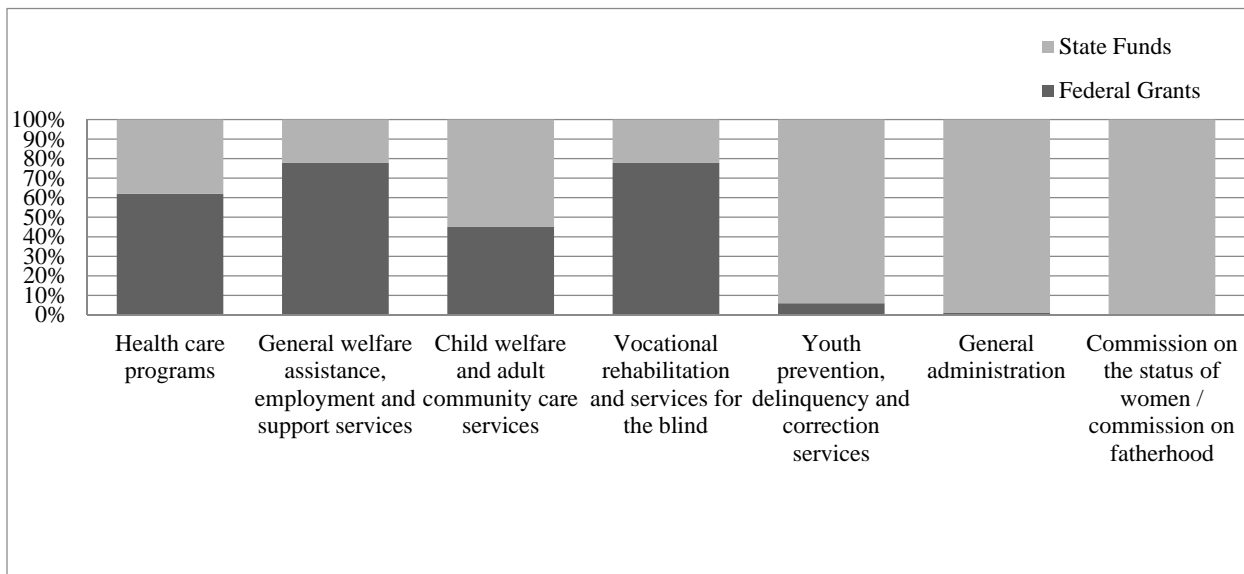


Department of Human Services State of Hawaii

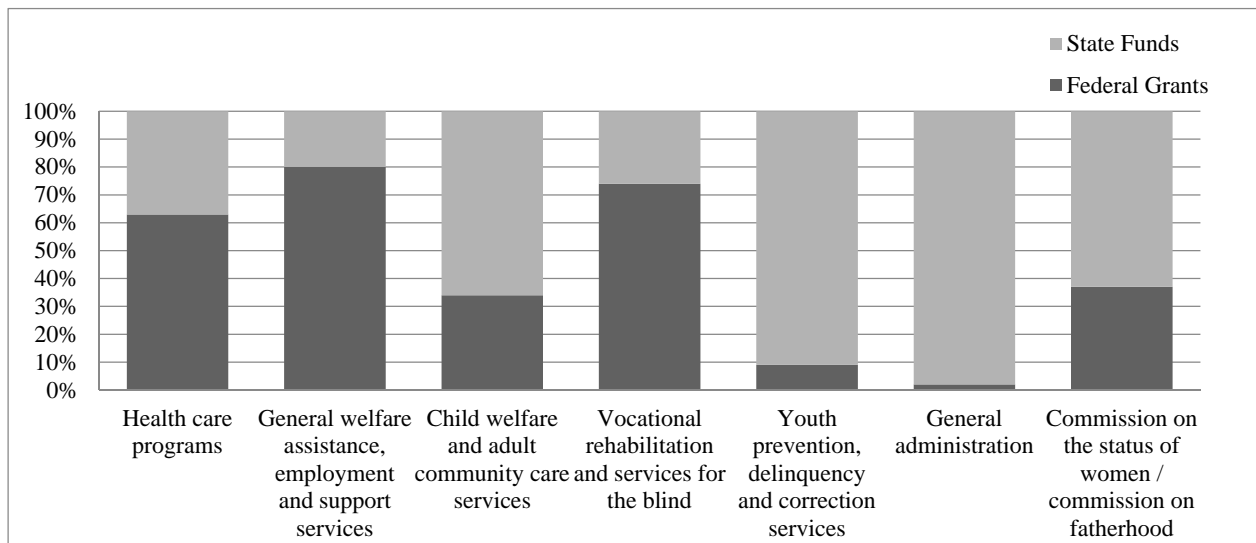
Management Discussion and Analysis (continued)
June 30, 2019

Program revenues consist primarily of operating grants from the federal government. Revenues from these federal grants paid for 63.84% 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, 2019 and 2018:

Fiscal Year 2019



Fiscal Year 2018



Department of Human Services State of Hawaii

Management Discussion and Analysis (continued)
June 30, 2019

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 decreased by \$170.6 million over the prior fiscal year. This decrease is primarily related to a decrease in reimbursement of prior year costs for the health care program.

At June 30, 2019, the total governmental fund balance of the DHS consisted of committed and assigned fund balance of approximately, \$3.5 million and \$204.6 million, respectively. The committed fund balance of the special revenue funds totaling \$3.5 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, 2019 and 2018:

	2019	2018	Percent Change
Revenues:			
State allotted appropriations	\$ 1,178,941,748	\$ 1,360,501,582	(13.35)%
Intergovernmental revenues	2,211,525,810	2,333,114,706	(5.21)%
Non-imposed employee fringe benefits	29,156,903	32,034,835	(8.98)%
Total	<u>\$ 3,419,624,461</u>	<u>\$ 3,725,651,123</u>	(8.21)%

Department of Human Services State of Hawaii

Management Discussion and Analysis (continued)
June 30, 2019

	2019	2018	Percent Change
Expenditures:			
Health care programs	\$ 2,492,343,103	\$ 2,663,779,884	(6.44)%
General welfare assistance, employment and support services	708,371,701	707,945,910	0.06%
Child welfare and adult community care services	173,271,283	168,650,163	2.74%
Vocational rehabilitation and services for the blind	26,187,505	31,030,359	(15.61)%
Youth prevention, delinquency and correction services	21,131,587	21,002,207	0.62%
General administration	15,797,914	15,158,807	4.22%
Commission on the status of women / commission on fatherhood	196,768	301,696	(34.78)%
Total	<u>\$ 3,437,299,861</u>	<u>\$ 3,607,869,026</u>	(4.73)%

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	\$ 1,053,239,703	\$ 1,049,900,835	\$ 1,019,480,254	\$ 30,420,581
General welfare assistance, employment and support services	173,410,755	175,407,588	161,308,072	14,099,516
Child welfare and adult community care services	109,230,075	109,642,307	105,066,660	4,575,647
Youth prevention, delinquency and correction services	18,493,872	20,358,661	19,209,809	1,148,852
General administration	10,825,610	28,124,672	28,123,064	1,608
Vocational rehabilitation and services for the blind	4,809,804	4,678,592	4,675,205	3,387
Commission on the status of women/commission on fatherhood	168,324	165,310	163,292	2,018
	<u>\$ 1,370,178,143</u>	<u>\$ 1,388,277,965</u>	<u>\$ 1,338,026,356</u>	<u>\$ 50,251,609</u>

Department of Human Services State of Hawaii

Management Discussion and Analysis (continued)
June 30, 2019

The differences between the original and final budget for the individual programs is mainly due to additional funds received for the Homeless project.

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. Also the revenues received for the health care program limited the amount the Department could expend for 2019. The amounts expended in comparison to the amount budgeted appears favorable.

CAPITAL ASSETS

As of June 30, 2019 and 2018, the cost basis of capital assets, net of accumulated depreciation, used by the DHS are presented in the table below. Approximately \$20.6 million of capital assets were added in the fiscal year ended June 30, 2019. The major increase in capital assets is due to the recording of buildings occupied by the department. Annual depreciation totaling approximately \$30.0 million decreased the net cost basis during the fiscal year ended June 30, 2019.

Capital Assets, Net of Depreciation

	2019	2018
Depreciable Assets:		
State office buildings and improvements	\$ 26,762,050	\$ 10,961,908
Building and improvements for the Office of Youth Services	12,255,377	13,097,304
Intangible assets - software	30,773,999	55,393,198
Total buildings and improvements	69,791,426	79,452,410
Furniture, equipment and vehicles	553,487	283,638
Non-depreciable Assets:		
Land	1	6
Total	<u>\$ 70,344,914</u>	<u>\$ 79,736,054</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, 2019

ECONOMIC FACTORS

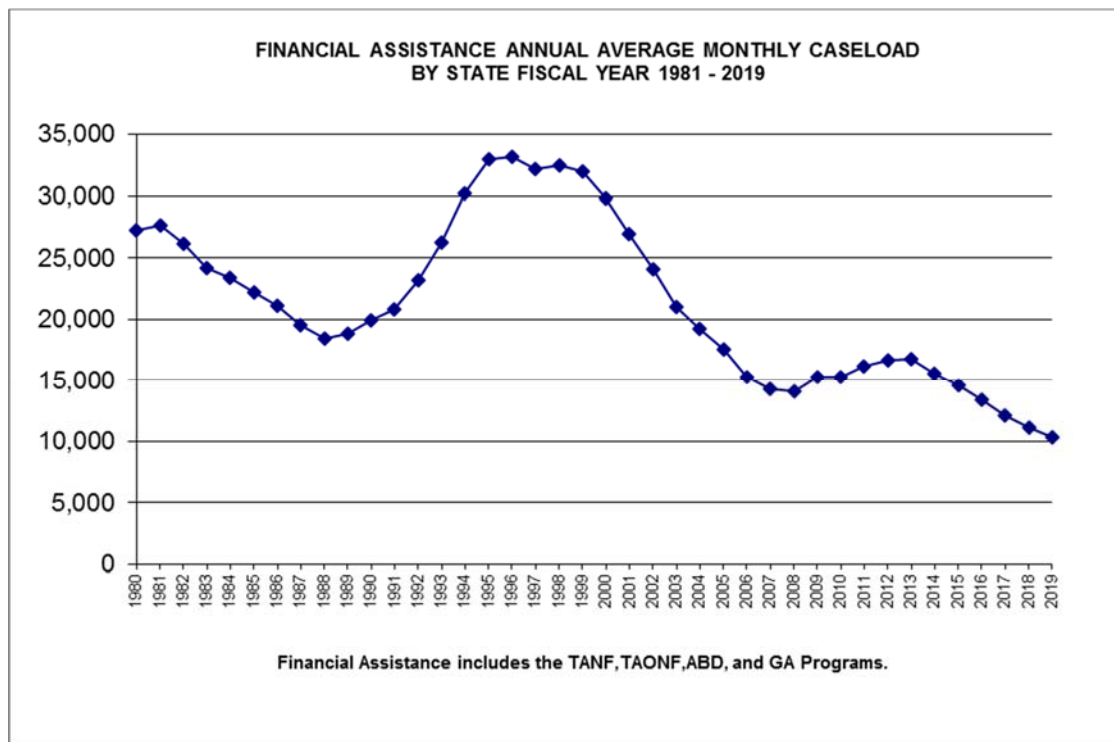
The average monthly financial assistance caseload decreased by (8%) from state fiscal year 2018 to 2019, from 11,118 to 10,279 cases. Last year also experienced a (8%) decrease.

The average monthly number of individuals in Hawaii receiving financial assistance decreased by (8%) from state fiscal year 2018 to 2019, from 19,786 to 18,292 individuals. This year's decline follows a (12%) decrease last year.

The average monthly number of individuals in Hawaii receiving Supplemental Nutrition Assistance Program (SNAP), formerly known as Food Stamp Program, decreased by (4%), from 164,788 to 158,628 individuals. Last year also experienced a (4%) decrease.

Over the past fiscal year, the number of individuals receiving SNAP benefits and financial assistance in Hawaii continued on a downward trend. Policy proposals at the national level could change work requirements that individuals must meet to receive SNAP benefits, and result in fewer individuals eligible for SNAP benefits in the future.

Figure 1.



Department of Human Services State of Hawaii

Management Discussion and Analysis (continued)
June 30, 2019

Figure 2.

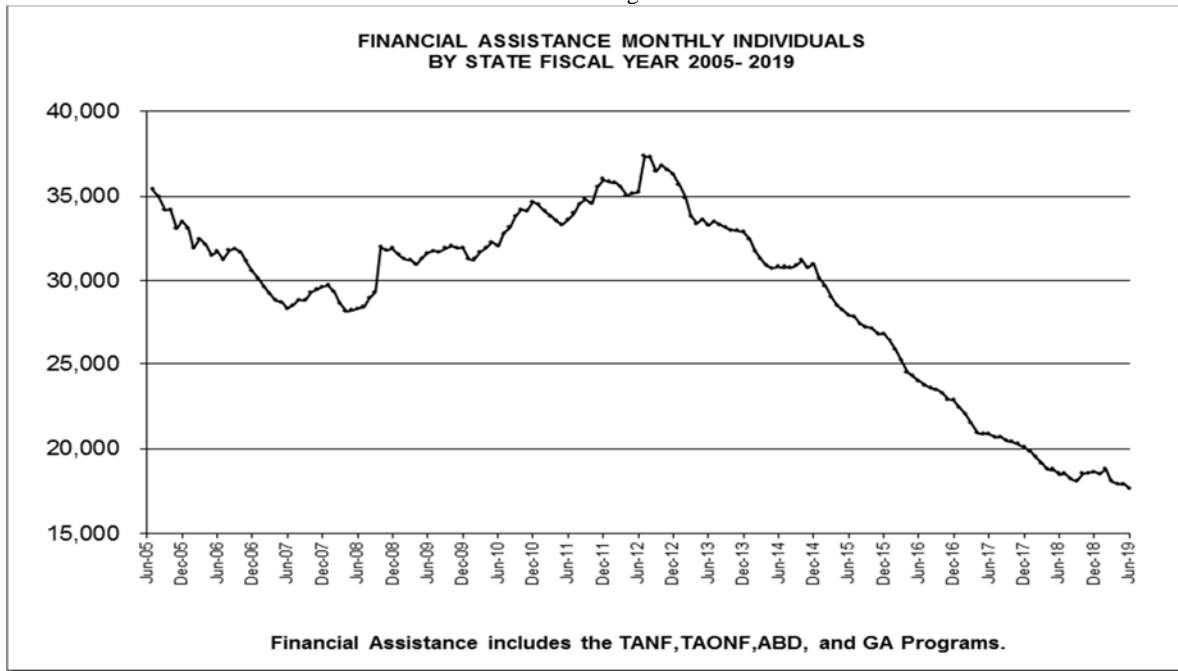
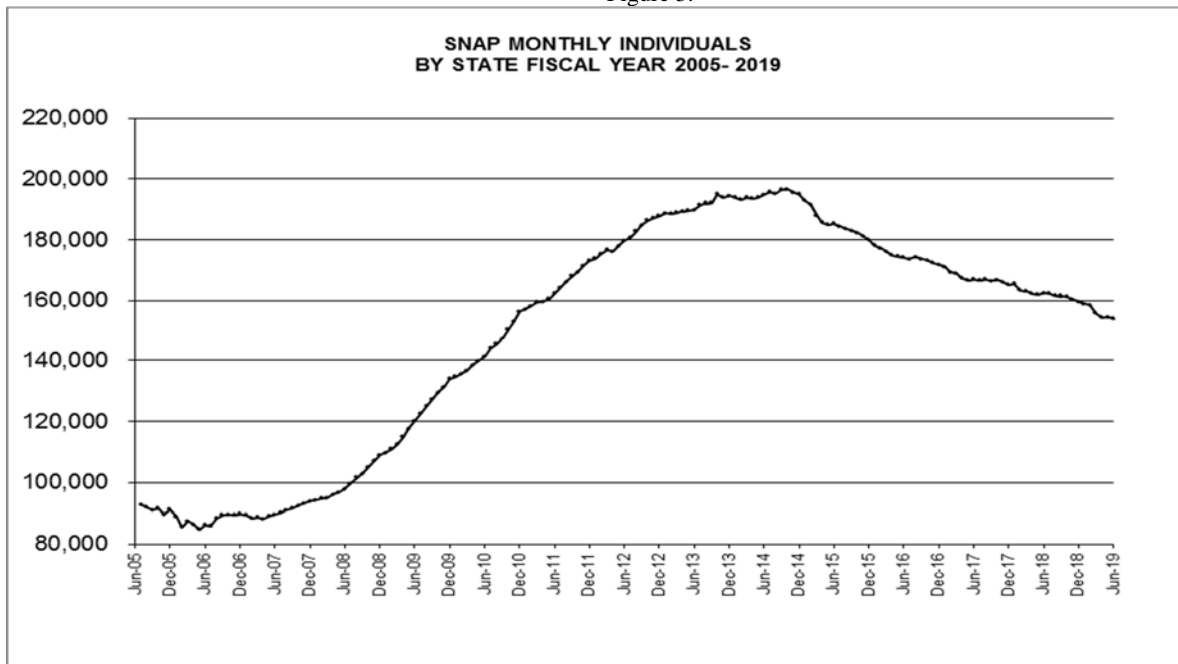


Figure 3.



Department of Human Services **State of Hawaii**

Statement of Activities
For the Fiscal Year Ended June 30, 2019

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Net Expense and Changes in Net Position
Governmental Activities:				
Health care programs	\$ 2,517,247,847	\$ -	\$ 1,560,685,492	\$ (956,562,355)
General welfare assistance, employment and support services	709,011,947	-	551,668,575	(157,343,372)
Child welfare and adult community care services	173,441,630	-	77,327,824	(96,113,806)
Vocational rehabilitation and services for the blind	26,218,463	-	20,498,355	(5,720,108)
Youth prevention, delinquency and correction services	21,755,168	-	1,260,852	(20,494,316)
General administration	16,083,928	-	84,712	(15,999,216)
Commission on the status of women / commission on fatherhood	211,125	-	-	(211,125)
Total governmental activities	<u>\$ 3,463,970,108</u>	<u>\$ -</u>	<u>\$ 2,211,525,810</u>	<u>\$ (1,252,444,298)</u>
General Revenues:				
				\$ 1,178,941,748
State allotments, net of lapsed appropriations				29,156,903
Nonimposed employee fringe benefits				1,208,098,651
Total general revenues				17,436,720
Transfers				(26,908,927)
Change in net position				292,012,488
Net Position at June 30, 2018				\$ 265,103,561
Net Position at June 30, 2019				

See accompanying notes to the basic financial statements.

Department of Human Services **State of Hawaii**

Balance Sheet – Governmental Funds
June 30, 2019

	General	Med-QUEST Special Revenue Fund	Human Services Special Revenue Fund	Total
ASSETS:				
Cash and cash equivalents	\$ 248,105,130	\$ 72,927,000	\$ 48,028,447	\$ 369,060,577
Receivables, net	15,091,285	96,366,246	961,532	112,419,063
Due from other funds	194,448,924	-	-	194,448,924
Due from other governments	-	1,629,097	39,527,148	41,156,245
Total assets	<u>\$ 457,645,339</u>	<u>\$ 170,922,343</u>	<u>\$ 88,517,127</u>	<u>\$ 717,084,809</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Vouchers payable	\$ 13,671,749	\$ -	\$ 7,909,305	\$ 21,581,054
Accrued wages and employee benefits payable	6,667,376	5,232,470	15,433,558	27,333,404
Due to other funds	-	132,813,446	61,635,478	194,448,924
Due to State general fund	197,419,384	-	-	197,419,384
Accrued medical assistance payable	35,267,466	32,876,427	-	68,143,893
Total liabilities	<u>253,025,975</u>	<u>170,922,343</u>	<u>84,978,341</u>	<u>508,926,659</u>
FUND BALANCES:				
Committed	-	-	3,538,786	3,538,786
Assigned	<u>204,619,364</u>	<u>-</u>	<u>-</u>	<u>204,619,364</u>
Total fund balances	<u>204,619,364</u>	<u>-</u>	<u>3,538,786</u>	<u>208,158,150</u>
Total liabilities and fund balances	<u>\$ 457,645,339</u>	<u>\$ 170,922,343</u>	<u>\$ 88,517,127</u>	<u>\$ 717,084,809</u>

See accompanying notes to the basic financial statements.

**Department of Human Services
State of Hawaii**

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2019

Total Fund Balances - Governmental Funds		\$ 208,158,150
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	268,126,180	
Less accumulated depreciation and amortization	<u>(197,781,266)</u>	70,344,914
Accrued compensated absences are not due in the current period and, therefore, are not reported in the governmental funds.		<u>(13,399,503)</u>
Net Position of Governmental Activities		<u><u>\$ 265,103,561</u></u>

See accompanying notes to the basic financial statements.

Department of Human Services State of Hawaii

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
For the Fiscal Year Ended June 30, 2019

	General	Med-Quest Special Revenue Fund	Human Services Special Revenue Fund	Total
REVENUES:				
State-allotted appropriations	\$ 1,178,941,748	\$ -	\$ -	\$ 1,178,941,748
Intergovernmental	-	1,560,685,492	650,840,318	2,211,525,810
Nonimposed employee fringe benefits	29,156,903	-	-	29,156,903
	<u>1,208,098,651</u>	<u>1,560,685,492</u>	<u>650,840,318</u>	<u>3,419,624,461</u>
EXPENDITURES:				
Health care programs	931,657,611	1,560,685,492	-	2,492,343,103
General welfare assistance, employment and support services	156,703,123	-	551,668,578	708,371,701
Child welfare and adult community care services	96,452,278	-	76,819,005	173,271,283
Vocational rehabilitation and services for the blind	6,063,718	-	20,123,787	26,187,505
Youth prevention, delinquency and correction services	19,870,737	-	1,260,850	21,131,587
General administration	15,713,202	-	84,712	15,797,914
Commission on the status of women / commission on fatherhood	196,768	-	-	196,768
	<u>1,226,657,437</u>	<u>1,560,685,492</u>	<u>649,956,932</u>	<u>3,437,299,861</u>
(DEFICIENCY) EXCESS OF REVENUES (UNDER) OVER EXPENDITURES	<u>(18,558,786)</u>	<u>-</u>	<u>883,386</u>	<u>(17,675,400)</u>
OTHER FINANCING SOURCES -- TRANSFERS IN	<u>82,750</u>	<u>-</u>	<u>-</u>	<u>82,750</u>
NET CHANGE IN FUND BALANCES	<u>(18,476,036)</u>	<u>-</u>	<u>883,386</u>	<u>(17,592,650)</u>
FUND BALANCES AT JULY 1, 2018	<u>223,095,400</u>	<u>-</u>	<u>2,655,400</u>	<u>225,750,800</u>
FUND BALANCES AT JUNE 30, 2019	<u>\$ 204,619,364</u>	<u>\$ -</u>	<u>\$ 3,538,786</u>	<u>\$ 208,158,150</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, 2019

Net Change in Fund Balances - Total Governmental Funds \$ (17,592,650)

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

Governmental funds report capital outlays as expenditures,
however, in the statement of activities, the cost of those assets
are depreciated over their estimated useful lives as depreciation
expense. This is the amount by which depreciation exceeded
capital outlays less dispositions and others during the year. (26,745,110)

Net capital asset transfers from other State departments
that are not recorded in the governmental funds. 17,353,970

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. 74,863

Change in Net Position - Governmental Activities \$ (26,908,927)

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, 2019

	<u>Original</u>	<u>Final</u>	<u>Actual on Budgetary Basis</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES --				
State Allotments	\$ 1,370,178,143	\$ 1,388,277,965	\$ 1,259,739,321	\$ (128,538,644)
EXPENDITURES:				
Health care programs	1,053,239,703	1,049,900,835	1,019,480,254	30,420,581
General welfare assistance, employment and support services	173,410,755	175,407,588	161,308,072	14,099,516
Child welfare and adult community care services	109,230,075	109,642,307	105,066,660	4,575,647
Youth prevention, delinquency and correction services	18,493,872	20,358,661	19,209,809	1,148,852
General administration	10,825,610	28,124,672	28,123,064	1,608
Vocational rehabilitation and services for the blind	4,809,804	4,678,592	4,675,205	3,387
Commission on the status of women / commission on fatherhood	168,324	165,310	163,292	2,018
	<u>1,370,178,143</u>	<u>1,388,277,965</u>	<u>1,338,026,356</u>	<u>50,251,609</u>
Deficiency of revenues under expenditures	<u>-</u>	<u>-</u>	<u>(78,287,035)</u>	<u>(78,287,035)</u>
OTHER FINANCING SOURCES --				
TRANSFERS IN	<u>-</u>	<u>-</u>	<u>82,750</u>	<u>82,750</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES AND OTHER FINANCING USES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (78,204,285)</u>	<u>\$ (78,204,285)</u>

See accompanying notes to the basic financial statements.

Department of Human Services **State of Hawaii**

Special Revenue Funds

Statement of Revenues and Expenditures - Budget and Actual

For the Fiscal Year Ended June 30, 2019

			Actual on Budgetary Basis		
	Original	Final	Med-QUEST Special Revenue Fund	Human Services Special Revenue Fund	Variance Favorable (Unfavorable)
REVENUES --					
Intergovernmental Revenues:					
Med-QUEST	\$ 1,547,745,675	\$ 1,547,745,675	\$ 1,556,371,177	\$ -	\$ 8,625,502
Human services	255,349,710	255,349,710	-	163,562,893	(91,786,817)
	1,803,095,385	1,803,095,385	1,556,371,177	163,562,893	(83,161,315)
EXPENDITURES:					
Health care programs	1,547,745,675	1,547,745,675	1,499,689,975	-	48,055,700
General welfare assistance, employment and support services	123,398,442	123,398,442	-	79,671,980	43,726,462
Child welfare and adult community care services	68,713,867	68,713,867	-	66,113,631	2,600,236
Vocational rehabilitation and services for the blind	25,917,974	25,917,974	-	20,723,834	5,194,140
Youth prevention, delinquency and correction services	2,723,541	2,723,541	-	1,992,718	730,823
General administration	2,921,632	2,921,632	-	2,242,054	679,578
	1,771,421,131	1,771,421,131	1,499,689,975	170,744,217	100,986,939
EXCESS (DEFICIENCY) OF REVENUES					
OVER (under) EXPENDITURES	\$ 31,674,254	\$ 31,674,254	\$ 56,681,202	\$ (7,181,324)	\$ 17,825,624

See accompanying notes to the basic financial statements.

**Department of Human Services
State of Hawaii**

Fiduciary Funds
Statement of Fiduciary Net Assets
June 30, 2019

	<u>Agency Fund</u>	<u>Private Purpose Trust Funds</u>
ASSETS --		
Cash	\$ 2,770,747	\$ 361,921
Total assets	<u>\$ 2,770,747</u>	<u>\$ 361,921</u>
LIABILITIES:		
Due to individuals	\$ 1,251,419	\$ -
Due to others	<u>1,519,328</u>	<u>-</u>
Total liabilities	<u>\$ 2,770,747</u>	<u>-</u>
NET ASSETS - HELD IN TRUST		<u>\$ 361,921</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

For the Fiscal Year Ended June 30, 2019

	Private Purpose Trust Funds
Additions --	
Donations	\$ 4,839
Total additions	<u>4,839</u>
Deductions --	
Other	<u>31,203</u>
Total deductions	<u>31,203</u>
CHANGES IN NET ASSETS	(26,364)
NET ASSETS AT JULY 1, 2018	<u>388,285</u>
NET ASSETS AT JUNE 30, 2019	<u><u>\$ 361,921</u></u>

See accompanying notes to the basic financial statements.

Department of Human Services

State of Hawaii

Notes to Financial Statements
June 30, 2019

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, 2019

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, 2019

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

Department of Human Services State of Hawaii

Notes to Financial Statements
June 30, 2019

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 fund.

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

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

Department of Human Services State of Hawaii

Notes to Financial Statements
June 30, 2019

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, 2019

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:

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.

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

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, 2019

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 due from other governments and intergovernmental revenues when the related expenditures or expenses are incurred as of fiscal year-end and funds are available.

Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and 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, 2019

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 and drug rebates from manufacturers. The amounts reported as net receivables were established based on management's estimate of amounts collectible.

e. Capital Assets

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

Department of Human Services State of Hawaii

Notes to Financial Statements
June 30, 2019

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, 2019

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 due from other governments and intergovernmental 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, 2019

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 is restricted when constraints placed on them are either externally imposed or imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net position. When both 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, 2019

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

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve the guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The provisions of this Statement are effective for the period beginning after December 15, 2018. The DHS has not yet determined the effect this statement will have on its financial statements.

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

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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 2018 (Act 053, SLH 2018), 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 2017 - 2019 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, 2019, there were no expenditures in excess of appropriations in the individual funds.

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

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

Department of Human Services State of Hawaii

Notes to Financial Statements
June 30, 2019

3. Budgeting and Budgetary Control (continued)

The following schedule reconciles the budgetary amounts to the amounts presented in accordance with GAAP for the fiscal year ended June 30, 2019:

	General	Med QUEST	Human Services
(Deficiency) Excess of revenues and other sources (under) over expenditures - actual on a budgetary basis	\$ (78,204,285)	\$ 56,681,202	\$ (7,181,324)
Current year's appropriations encumbered at fiscal year-end	159,340,532	35,965,566	23,831,490
Expenditures for liquidation of prior fiscal year encumbrances	(113,528,635)	(38,665,356)	(23,534,582)
Net changes in liabilities	2,816,345	(4,253,992)	(8,109,339)
Net change in accrued medical assistance payable	12,309,589	12,801,680	-
Accruals related to federal reimbursements for program expenditures	80,797,573	(66,834,621)	(13,962,952)
Net change in other receivables	(1,209,583)	(41,638)	(514,579)
Difference for revenues recognized for GAAP purposes	(80,797,572)	4,347,159	30,354,672
Net change in fund balances - GAAP basis	\$ (18,476,036)	\$ -	\$ 883,386

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Notes to Financial Statements
June 30, 2019

4. Cash and Cash Equivalents

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

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

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

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Notes to Financial Statements
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5. Receivables

Receivables of the DHS, net of an allowance for doubtful accounts, consisted of the following at June 30, 2019:

	General	Med-QUEST	Human Services
Welfare benefit overpayments	\$ 21,741,863	\$ 2,144,705	\$ 25,878,412
Drug rebate receivable	-	95,650,540	-
Medicaid providers receivable	9,500,000	-	-
Medicaid assistance receivable	4,864,275	636,018	-
Social Security interim assistance loans	1,306,115	-	-
CSEA receivable	153,059	-	-
	<u>37,565,312</u>	<u>98,431,263</u>	<u>25,878,412</u>
Less allowance for doubtful accounts:			
Welfare benefit overpayments	20,934,027	2,065,017	24,916,880
Medicaid providers receivable	<u>1,540,000</u>	<u>-</u>	<u>-</u>
	<u>22,474,027</u>	<u>2,065,017</u>	<u>24,916,880</u>
Receivables, net	<u>\$ 15,091,285</u>	<u>\$ 96,366,246</u>	<u>\$ 961,532</u>

6. Interfund Receivable and Payable

The general fund had a net receivable due from the special revenue funds totaling \$194,448,924 as of June 30, 2019, for federal reimbursements of program expenditures. The Med-QUEST and Human Services special revenue funds had a payable to the general fund totaling \$132,813,446 and \$61,635,478, respectively, as of June 30, 2019, for federal reimbursements of program expenditures.

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Notes to Financial Statements
June 30, 2019

7. Capital Assets

	Balance July 1, 2018	Additions	Disposals	Other	Balance June 30, 2019
Depreciable Assets:					
Building and improvements	\$ 59,169,376	\$ 19,965,313	\$ -	\$ (489,914)	\$ 78,644,775
Furniture and equipment	33,881,546	481,074	(165,900)	-	34,196,720
Motor vehicles	1,604,605	129,969	(137,026)	-	1,597,548
Intangible assets – software	153,687,136	-	-	-	153,687,136
Non-Depreciable Assets--					
Land	<u>6</u>	<u>-</u>	<u>(5)</u>	<u>-</u>	<u>1</u>
Total at historical cost	<u>248,342,669</u>	<u>20,576,356</u>	<u>(302,931)</u>	<u>(489,914)</u>	<u>268,126,180</u>
Less Accumulated Depreciation/ Amortization:					
Building and improvements	35,110,164	5,047,687	-	(530,503)	39,627,348
Furniture and equipment	33,643,774	271,264	(161,130)	-	33,753,908
Motor vehicles	1,558,739	65,160	(137,026)	-	1,486,873
Intangible assets - software	<u>98,293,938</u>	<u>24,619,199</u>	<u>-</u>	<u>-</u>	<u>122,913,137</u>
Total accumulated depreciation/ amortization	<u>168,606,615</u>	<u>30,003,310</u>	<u>(298,156)</u>	<u>(530,503)</u>	<u>197,781,266</u>
Capital Assets, net	<u>\$79,736,054</u>	<u>\$ (9,426,954)</u>	<u>\$ (4,775)</u>	<u>\$ 40,589</u>	<u>\$70,344,914</u>

Department of Human Services State of Hawaii

Notes to Financial Statements
June 30, 2019

7. Capital Assets (continued)

Depreciation expense for the fiscal year ended June 30, 2019 was charged to functions/programs of the DHS as follows:

	Governmental Activities
Health care programs	\$ 24,820,972
General welfare assistance, employment and support services	1,353,518
Child welfare and adult community care services	1,442,261
Commission on status of women / commission on fatherhood	279,194
Vocational rehabilitation and services for the blind	1,045,619
Youth prevention, delinquency and correction services	961,083
General administration	100,663
	<u>\$ 30,003,310</u>

8. Accrued Compensated Absences

The long-term liability of the DHS for governmental activities consisted of accrued compensated absences. The change in the long-term liability during the fiscal year ended June 30, 2019, was as follows:

	Amount
Balance at July 1, 2018	\$ 13,474,366
Additions	7,875,897
Reductions	<u>(7,950,760)</u>
Balance at June 30, 2019	13,399,503
Less current portion	<u>(5,363,000)</u>
	<u>\$ 8,036,503</u>

Department of Human Services State of Hawaii

Notes to Financial Statements
June 30, 2019

9. Fund Balance

Fund balance constraints by purpose as of June 30, 2019 were as follows:

	General	Med-QUEST Special Revenue Fund	Human Services Special Revenue Fund	Total
Committed:				
Commission on the status of women / commission on fatherhood	\$ -	\$ -	\$ 3,560	\$ 3,560
Child welfare and adult community care	-	-	1,530,788	1,530,788
Vocation rehabilitation	-	-	2,004,438	2,004,438
Total – committed	-	-	3,538,786	3,538,786
Assigned:				
Human services	204,619,364	-	-	204,619,364
Total – assigned	204,619,364	-	-	204,619,364
Total fund balances	<u>\$204,619,364</u>	<u>\$ -</u>	<u>\$ 3,538,786</u>	<u>\$208,158,150</u>

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, 2019, were as follows:

	Balance July 1, 2018	Additions	Deductions	Balance June 30, 2019
Assets --				
Cash	<u>\$ 8,549,579</u>	<u>\$ 81,268,030</u>	<u>\$ 87,046,862</u>	<u>\$ 2,770,747</u>
Liabilities --				
Due to individuals and others	<u>\$ 8,549,579</u>	<u>\$ 81,268,030</u>	<u>\$ 87,046,862</u>	<u>\$ 2,770,747</u>

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June 30, 2019

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 \$29,157,000 for the fiscal year ended June 30, 2019, 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 2025. Certain leases include renewal and escalation clauses. The DHS's general fund share of lease costs is paid from the State General Fund. The federal share of these lease costs allocable to programs is reported in the special revenue fund of the DHS. The following is a schedule of the approximate minimum future lease commitments for non-cancelable operating leases as of June 30, 2019:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2020	\$ 1,535,000
2021	1,251,000
2022	932,000
2023	198,000
2024	99,000
2025	68,000
	<u>\$ 4,083,000</u>

The DHS's rent expenditures for operating leases for the fiscal year ended June 30, 2019, amounted to approximately \$1,855,000, and is included in the accompanying financial statements.

Department of Human Services State of Hawaii

Notes to Financial Statements
June 30, 2019

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 annual financial report that is available to the public. For more information on the State's benefit plans, refer to the State CAFR and the ERS 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://www.ers.ehawaii.gov/>.

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

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

Department of Human Services State of Hawaii

Notes to Financial Statements
June 30, 2019

13. Retirement Benefits (continued)

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

Noncontributory Class

- Retirement Benefits – General employees' retirement benefits are determined as 1.25% of average final compensation multiplied by the years of credited service. Employees with ten years of credited service are eligible to retire at age 62. Employees with 30 years of credited service are eligible to retire at age 55.
- Disability Benefits – Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 12.5% of average final compensation.
- Death Benefits – For service-connected deaths, the surviving spouse/reciprocal beneficiary receives a monthly benefit of 30% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. Additional benefits are payable to surviving dependent children up to age 18. If there is no spouse/reciprocal beneficiary or surviving dependent children, no benefit is payable.

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

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13. Retirement Benefits (continued)

Contributory Class for Members Hired Prior to July 1, 2012

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

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

Department of Human Services State of Hawaii

Notes to Financial Statements
June 30, 2019

13. Retirement Benefits (continued)

Contributory Class for Members Hired After June 30, 2012

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

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

Hybrid Class for Members Hired Prior to July 1, 2012

- Retirement Benefits – General employees' retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with five years of credited service are eligible to retire at age 62. General employees with 30 years of credited service are eligible to retire at age 55.
- Disability Benefits – Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation plus refund of their contributions and accrued interest. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 25% of average final compensation.

Department of Human Services State of Hawaii

Notes to Financial Statements
June 30, 2019

13. Retirement Benefits (continued)

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

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

Hybrid Class for Members Hired After June 30, 2012

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

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Notes to Financial Statements
June 30, 2019

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, 2019, 2018, and 2017 was paid from the State General Fund and totaled approximately \$9,642,247, \$10,246,000, and \$9,659,000, respectively. The DHS's federal share of pension benefits expense for the fiscal years ended June 30, 2019, 2018, and 2017 was approximately \$6,248,907, \$5,043,000, and \$4,531,000, respectively. The employer contribution rate for the fiscal years ended June 30, 2019, 2018, and 2017 was 19.00 %, 18.00%, and 17.00%, 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 provides certain health care and life insurance benefits to all qualified employees. Pursuant to Act 88, SLH 2001, the State of Hawaii contributes to the Hawaii Employer-Union Health Benefits Trust Fund (EUTF), an agent multiple-employer plan that replaced the Hawaii Public Employees Health Fund effective July 1, 2003. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees and their dependents. The EUTF issues an annual financial report that is available to the public. The report may be obtained at <http://eutf.hawaii.gov>.

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

Department of Human Services State of Hawaii

Notes to Financial Statements
June 30, 2019

13. Retirement Benefits (continued)

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

For employees hired on or after July 1, 2001, and who retire with less than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For 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, 2019, 2018, and 2017, was approximately \$20,302,000, \$17,232,000, and \$13,209,000, 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, 2019

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, terrorism, and boiler and machinery coverage. The limit of loss per occurrence is \$200 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 \$5 million and for crime loss, \$10 million with no aggregate limit.

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

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Notes to Financial Statements
June 30, 2019

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, 2019, 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, 2019, was approximately \$397,000.

15. Commitments and Contingencies

Encumbrances

Encumbrances as of June 30, 2019 were as follows:

Fund	Amount
General	\$ 178,102,113
Med-QUEST	32,518,832
Human Services	25,771,880
Total	<u>\$ 239,392,825</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, 2019, accumulated sick leave was approximately \$39.6 million.

Department of Human Services State of Hawaii

Notes to Financial Statements
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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 \$197,419,384 as of June 30, 2019, which included federal reimbursements for program expenditures totaling \$150,080,078, receivables totaling \$47,237,920, and cash totaling \$101,386.

SUPPLEMENTARY INFORMATION

Department of Human Services State of Hawaii

Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2019

	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. Department of Health and Human Services:				
<i>Other Programs</i>				
Promoting Safe and Stable Families	93.556		\$ 1,696,259	\$ 1,696,259
ACL Assistive Technology	93.464		394,966	394,966
Refugee and Entrant Assistance - State				
Administered Programs	93.566		5,987	-
Low-Income Home Energy Assistance	93.568		5,087,310	-
U.S. Repatriation Program	93.579		2,993	-
Chaffee Education and Training Vouchers				
Program (ETV)	93.599		132,216	-
Children's Justice Grants to States	93.643		67,892	67,275
Stephanie Tubbs Jones Child Welfare				
Services Program	93.645		990,067	990,067
Foster Care - Title IV-E	93.658		34,344,789	-
Adoption Assistance	93.659		15,928,027	-
Guardianship Assistance	93.090		2,836,381	-
Social Services Block Grant	93.667		17,343,291	7,628,298
Family Violence Prevention and Services /				
Grants for Battered Women's Shelters -				
Grants to States and Indian Tribes	93.671		1,499,376	1,283,285
Chafee Foster Care Independence Program	93.674		885,616	885,616
Elder Justice Innovation Grants	93.747		63,995	56,979
Children's Health Insurance Program	93.767		53,193,675	-
Money Follows a Person	93.791		594,963	-
Independent Living State Grants	93.369		311,010	-
<i>Total Other Programs</i>			135,378,813	13,002,745
<i>TANF Cluster</i>				
Temporary Assistance for Needy Families	93.558		41,318,589	11,810,427
<i>Total TANF Cluster</i>			41,318,589	11,810,427
<i>Medicaid Cluster</i>				
State Survey and Certification of Health				
Care Providers	93.777		1,270,592	-
Medical Assistance Program	93.778		1,459,274,327	-
<i>Total Medicaid Cluster</i>			1,460,544,919	-
<i>CCDF Cluster</i>				
Child Care and Development Block Grant	93.575		8,312,334	5,117,256
Child Care Mandatory and Matching Funds				
of the Child Care and Development Fund	93.596		12,613,124	-
<i>Total CCDF Cluster</i>			20,925,458	5,117,256
Total U.S. Department of Health and Human Services			\$ 1,658,167,779	\$ 29,930,428

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, 2019

	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. Department of Agriculture:				
<i>SNAP Cluster</i>				
Supplemental Nutrition Assistance Program	10.551		\$ 456,750,824	\$ -
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561		25,364,624	2,199,024
<i>Total SNAP Cluster</i>			482,115,448	2,199,024
Total U.S. Department of Agriculture			482,115,448	2,199,024
U.S. Department of Housing and Urban Development:				
Emergency Solutions Grants Program	14.231		452,428	382,133
Housing Opportunities for Persons with AIDS	14.241		247,779	247,779
Continuum of Care Program	14.267		570,156	384,275
Total U.S. Department of Housing and Urban Development			1,270,363	1,014,187
U.S. Department of Justice:				
Juvenile Justice and Delinquency Prevention - Allocation to States	16.540		419,723	-
Pass-through Department of the Attorney General - Edward Byrne Memorial Competitive Grant Program	16.751	2017-XT-BX-0004	24,172	-
Total U.S. Department of Justice			443,895	-
U.S. Department of Labor --				
Pass-through State Department of Labor and Industrial Relations Senior Community Service Employment Program	17.235	PY18-SCSEP-CC-DHS	163,398	-
Total U.S. Department of Labor			\$ 163,398	\$ -

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, 2019

	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures	Amount Provided to Subrecipients
Corporation for National and Community Service:				
<i>Foster Grandparent/Senior Companion Cluster</i>				
Foster Grandparent Program	94.011		\$ 454,877	\$ -
Senior Companion Program	94.016		314,741	-
<i>Total Foster Grandparent/Senior Companion Cluster</i>			769,618	-
Total Corporation for National and Community Service			769,618	-
Social Security Administration --				
<i>Disability Insurance/SSI Cluster</i>				
Social Security - Disability Insurance	96.001		7,807,068	-
<i>Total Disability Insurance/SSI Cluster</i>			7,807,068	-
Total Social Security Administration			7,807,068	-
U.S. Department of Education:				
Rehabilitation Services - Vocational				
Rehabilitation Grants to States	84.126		11,032,828	-
Rehabilitation Services - Independent Living				
Services for Older Individuals Who are Blind	84.177		297,517	-
Supported Employment Services for				
Individuals with the most Significant Disabilities	84.187		58,950	-
Total U.S. Department of Education			11,389,295	-
TOTAL FEDERAL EXPENDITURES			<u>\$ 2,162,126,864</u>	<u>\$ 33,143,639</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, 2019

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the DHS and is presented on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of Uniform Guidance. 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

Grant awards totaling \$9,857,840 were transferred from CFDA 93.558 Temporary Assistance for Needy Families to CFDA 93.667 Social Services Block Grant.

3. Supplemental Nutrition Assistance Program

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

4. Indirect Cost

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

PART II

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



A Hawaii Limited Liability Partnership

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

Independent Auditor's Report

Office of the Auditor
State of Hawaii

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Department of Human Services of the State of Hawaii (DHS), as of and for the year ended June 30, 2019, 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 16, 2020.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency

in internal control, described in the accompanying *Schedule of Findings and Questioned Costs* as item 2019-001, that we consider to be a significant deficiency.

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 no instances of noncompliance or other matters that are required to be reported under *Government Audit Standards*.

The DHS's Response to Findings

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

Purpose of this Report

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

KMH LLP

KMH LLP

Honolulu, Hawaii
March 16, 2020

PART III

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



A Hawaii Limited Liability Partnership

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

Independent Auditor's Report

Office of the Auditor
State of Hawaii

Report on Compliance for Each Major Federal Program

We have audited the Department of Human Services of the State of Hawaii's (DHS') compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the DHS's major federal programs for the year ended June 30, 2019. The DHS's major federal programs are identified in the summary of the auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

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

As described in Findings 2019-002 through 2019-014 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
2019-002	93.777, 93.778	Medicaid Cluster	Eligibility
2019-003	93.777, 93.778	Medicaid Cluster	Eligibility
2019-004	93.777, 93.778	Medicaid Cluster	Special Tests and Provisions
2019-005	84.126	Rehabilitation Services - Vocational Rehabilitation Grant to the State	Program Income
2019-006	84.126	Rehabilitation Services - Vocational Rehabilitation Grant to the State	Reporting
2019-007	10.551, 10.561	SNAP Cluster	Subrecipient Monitoring
2019-008	10.551, 10.561	SNAP Cluster	Special Tests and Provisions
2019-009	10.551, 10.561	SNAP Cluster	Special Tests and Provisions
2019-010	93.558	TANF Cluster	Eligibility
2019-011	93.558	TANF Cluster	Special Tests and Provisions
2019-012	93.558	TANF Cluster	Special Tests and Provisions
2019-013	93.558	TANF Cluster	Reporting
2019-014	93.558	TANF Cluster	Reporting

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

Qualified Opinion on the Major Federal Programs in the Table Above

In our opinion, except for the noncompliance described in Basis for Qualified Opinion paragraph, the DHS complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal programs identified in the Basis for Qualified Opinion paragraph for the year ended June 30, 2019.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the DHS complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal 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, 2019.

Other Matters

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

Report on Internal Control Over Compliance

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

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. *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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as items 2019-002 through 2019-014, that we consider to be material weaknesses.

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

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

KMH LLP

KMH LLP

Honolulu, Hawaii

March 16, 2020

PART IV

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Department of Human Services State of Hawaii

Schedule of Findings and Questioned Costs (continued)
June 30, 2019

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 Foster Care – Title IV-E, Social Services Block Grant and Disability Insurance/SSI Cluster, which are unmodified.

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

Department of Human Services
State of Hawaii

Schedule of Findings and Questioned Costs (continued)
 June 30, 2019

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

Identification of major programs:

<u>CFDA</u> <u>Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.551, 10.561	SNAP Cluster
84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States
93.558	TANF Cluster
93.658	Foster Care – Title IV-E
93.667	Social Services Block Grant
93.777, 93.778	Medicaid Cluster
96.001	Disability Insurance/SSI Cluster

Dollar threshold used to distinguish between type A and type B programs: \$6,486,381

Auditee qualified as low-risk auditee? ☐ Yes ☒ No

Department of Human Services State of Hawaii

Schedule of Findings and Questioned Costs (continued)
June 30, 2019

Section II – Financial Statement Findings

Finding No.: 2019-001 Financial Statement Reporting

Type of Finding: Significant Deficiency

Criteria: In accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, fund financial statements should be prepared using the current financial resources measurement focus and the modified accrual basis of accounting. Under this basis, revenues are recognized only to the extent that they are susceptible to accrual and liabilities are required to be recorded only to the extent that their repayment will require the use of expendable available financial resources.

Condition: During our audit, we proposed and management accepted audit adjustments related to the following:

- Under accrual of vouchers payable of approximately \$1.3 million.
- Under accrual of receivables from the Department of Health (DOH) of approximately \$2.8 million.

In addition to the items note above, management initially prepared a schedule which supported a component of the medical assistance payable liability, however, we noted that this schedule contained incomplete data. We notified management of the incomplete data and management provided a revised schedule using a completed set of data which resulted in an increase to management's initial liability estimate of approximately \$1.6 million.

Context: We noted that management, in the process of preparing its financial statements, had under accrued amounts related to vouchers payable and receivables. In addition, we noted that one of the schedules provided used incomplete data.

Cause: We noted the errors were related to the following:

- (1) Vouchers payable – management has a process in place to determine the accrual of vouchers payable which includes reviewing the service period or date of goods received as reported in the accounting system. The under accrued amounts were related to invoices whose service period or date of goods received, as listed in the accounting system, did not agree to the invoice.
- (2) Receivables from the DOH – management has a process in place to estimate the amounts receivable from DOH which primarily consists of reviewing the funds collected from DOH subsequent to year end and evaluating which period these funds relate to. The under accrual was caused by management incorrectly identifying the periods that the collected funds related to.

Department of Human Services State of Hawaii

Schedule of Findings and Questioned Costs (continued)
June 30, 2019

Section II – Financial Statement Findings (continued)

- (3) Accrued medical assistance payable - management utilizes claims information provided by DOH to prepare its accrual. Although management followed its process for estimating the accrual, we noted that the claims information utilized only included six months of data. Management inquired about the lack of data with DOH. The DOH indicated that they switched systems during the year which caused a delay in the receipt of claim information.

Effect: The under accrual of the amounts identified and the use of incomplete information, resulted in management's preliminary financial statements being misstated.

Identification of a repeat finding: This is a repeat finding from the immediate previous audit, 2018-001.

Recommendations: We recommend the following:

- (1) Vouchers payable – management should consider revising their process to include the review of the actual invoice instead of relying only on the service period or date of goods received as reported in the State's accounting system.
- (2) Receivables from the DOH – management should be more diligent in its review process identifying which period collected funds relate to.
- (3) Accrued medical assistance payable - management should ensure that in addition to the mechanical process of preparing the medical assistance payable estimate, they incorporate a review to determine whether the information utilized appears reasonably complete.

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

Department of Human Services State of Hawaii

Schedule of Findings and Questioned Costs (continued)
June 30, 2019

Section III – Federal Award Findings and Questioned Costs

Finding No.: 2019-002 Complete Eligibility Applications and Annual Eligibility Re-Verifications in a Timely Manner

Federal Agency: U.S Department of Health and Human Services
CFDA No.: 93.777 and 93.778
Program: Medicaid Cluster
Requirement: Eligibility
Type of Finding: Non-Compliance and Material Weakness
Federal award no. and year: 05-1805HI5028 2018
05-1905HI5028 2019

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 (MAGI-excepted), and 2) forty five days for all other applicants (MAGI). In addition, Title 42 CFR Part 435.916 requires annual re-verifications of participant eligibility.

Condition: Eligibility determinations for both MAGI and MAGI-excepted applications were not processed in accordance with the time standards.

Context: We obtained the CMS Performance Metrics Report and noted that there were approximately 51,000 applications received during fiscal year 2019. At the end of each month, there was an average of approximately 90 MAGI applications and approximately 10 MAGI-excepted applications for which eligibility was not determined in a timely manner. Additionally, there were approximately 332,000 renewals processed during fiscal year 2019. At the end of each month, there was an average of approximately 4,300 cases whose annual re-verification was not completed within 12 months.

Cause: The Department has identified issues in the system logic used in producing the CMS Performance Metric report for re-verifications. For the MAGI and MAGI-excepted initial applications, the cause is a lack of diligence in complying with the Department's policies and procedures.

Effect: There was an average of approximately 90 Modified Adjusted Gross Income (MAGI) applications and 7 MAGI-excepted applications for which eligibility was not determined in a timely manner. Also there were approximately 4,300 cases whose annual re-verification was not completed within 12 months.

Questioned costs: None

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2019

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

Finding No.: 2019-002 Complete Eligibility Applications and Annual Eligibility Re-Verifications in a Timely Manner (continued)

Identification of a repeat finding: This is a repeat finding from the immediate previous audit, 2018-002.

Recommendations: We recommend the Department review the system logic utilized in producing the CMS Performance Metrics report to ensure the information is aggregated properly for re-verification and be more diligent in complying with policies and procedures.

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

Department of Human Services State of Hawaii

Schedule of Findings and Questioned Costs (continued)
June 30, 2019

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

Finding No.: 2019-003 Maintaining Proper Case Documentation to Support Eligibility Determinations

Federal Agency:	U.S. Department of Health and Human Services
CFDA No.:	93.777 and 93.778
Program:	Medicaid Cluster
Requirement:	Eligibility
Type of Finding:	Non-Compliance and Material Weakness
Federal award no.	05-1805HI5028 2018
and year:	05-1905HI5028 2019

Criteria: Per 42 CFR 431.17(b), "A State plan must provide that the Medicaid agency will maintain or supervise the maintenance of the records necessary for the proper and efficient operation of the plan. The records must include individual records on each applicant and recipient that contain information on facts essential to determination of initial and continuing eligibility." For aged, blind, or disable (MAGI-excepted) individuals, verification of assets is required per 42 CFR 435.840.

Condition: Eligibility determinations for 4 participants was not supported by the Department's records.

Context: During our audit, we selected a non-statistical sample of 60 participants for testing and noted the following:

- 1 case file where the Supplemental Form for Individuals Applying for Coverage on the basis of Age, Blindness or Disability (DHS 1100B) was not maintained.
- 1 case file where the documentation to support the participant's date of birth was not maintained.
- 2 case files where the eligibility factors such as date of birth, social security number, and citizenship was not verified in a timely manner.

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

Effect: 4 participants received benefits in excess of the amounts supported by the Department's documentation.

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2019

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

**Finding No.: 2019-003 Maintaining Proper Case Documentation to Support Eligibility
Determinations (continued)**

Questioned Costs: \$5,693

Identification of a repeat finding: This is a repeat finding from the immediate previous audit, 2018-003.

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

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

Department of Human Services State of Hawaii

Schedule of Findings and Questioned Costs (continued)
June 30, 2019

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

Finding No.: 2019-004 Revalidation of Provider Eligibility

Federal Agency:	U.S. Department of Health and Human Services
CFDA No.:	93.777 and 93.778
Program:	Medicaid Cluster
Requirement:	Special Tests and Provisions - Provider Eligibility
Type of Finding:	Non-Compliance and Material Weakness
Federal award no.	05-1805HI5028 2018
and year:	05-1905HI5028 2019

Criteria: The State Medicaid Agency, Department of Human Services, Med-Quest Division is required to screen and enroll providers in accordance with 42 CFR Part 455, subpart E and make certain disclosures to the State Medicaid Agency in accordance with 42 CFR Part 455, subpart B. Also pursuant to 42 CFR 455.432, the State Medicaid Agency must (a) conduct pre-enrollment site visits of providers who are designated as “moderate” or “high” categorical risks to the Medicaid program and (b) must require any enrolled provider to permit CMS, its agents, its designated contractors, or the State Medicaid Agency to conduct unannounced on-site inspections of any or all provider locations.

Condition: Required screening and enrollment for 8 providers were not properly supported by the Department’s records and the Medicaid Application/Change Request Form (DHS 1139) were not maintained. Also on-site inspections were not performed for 4 providers.

Context: We selected 60 providers for testing which approximated \$555,000 payments out of a population of approximately 1,900 providers which approximated \$116 million for testing and noted the following:

- 8 providers where the Medicaid Application/Change Request Form (DHS 1139), which documents the screening and required disclosures, were not maintained.
- 4 providers where on-site visit was not performed as required.

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

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

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2019

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

Finding No.: 2019-004 Revalidation of Provider Eligibility (continued)

Questioned costs: \$48,009

Identification of a repeat finding: This is a repeat finding from the immediate previous audit, 2018-004.

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

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

Department of Human Services State of Hawaii

Schedule of Findings and Questioned Costs (continued)
June 30, 2019

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

Finding No.: 2019-005 Program Income

Federal Agency:	U.S. Department of Education
CFDA No.:	84.126
Program:	Rehabilitation Services - Vocational Rehabilitation Grants to States
Requirement:	Program Income
Type of Finding:	Non-Compliance and Material Weakness
Federal award no.	H126A170015 2017
and year:	H126A180015 2018
	H126A190015 2019

Criteria: 34 CFR 361.63 requires the State to disburse program income funds before requesting additional funds from the Department of Education.

Condition: Program income amounts were not disbursed prior to requesting additional funds.

Context: During our audit, we noted approximately \$454,000 of program income was received throughout the year and, although requests for additional funds were made throughout the year, the Department maintained a program income balance of approximately \$434,000 at June 30, 2019.

Cause: The program does not have documented policies and procedures over program income that address the roles and responsibilities of program personnel.

Effect: Failure to disburse program income before requesting additional funds resulted in non-compliance with the requirement.

Questioned Costs: None

Identification of a repeat finding: N/A

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

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

Department of Human Services State of Hawaii

Schedule of Findings and Questioned Costs (continued)
June 30, 2019

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

Finding No.: 2019-006 Maintaining Proper Case Documentation

Federal Agency:	U.S. Department of Education
CFDA No.:	84.126
Program:	Rehabilitation Services - Vocational Rehabilitation Grants to States
Requirement:	Reporting
Type of Finding:	Non-Compliance and Material Weakness
Federal award no.	H126A170015 2017
and year:	H126A180015 2018
	H126A190015 2019

Criteria: Rehabilitation Services Administration (RSA) Policy Directive RSA-PD-16-04 and 34 CFR 361.47 requires State Vocational Rehabilitation agencies to maintain supporting documentation (either hard copies or scanned copies) particularly regarding eligibility determinations, development of the individualized plan for employment, services provided, and case closure in the service record or case management system. Data reported in the case management system must match the supporting documentation for data elements containing critical information.

Condition: 40 cases did not have supporting documentation and/or there were discrepancies between the information per the case management system and the supporting documentation for one or more key data elements.

Context: During our audit, we selected a non-statistical sample of 60 participant case files, out of a population of 8,167 based on the participants from two quarterly reports, for testing and noted the following:

- 10 selections tested did not have supporting documentation for one or more key data elements and had discrepancies between the dates per the case management system and per the supporting documentation for one or more key data elements.
- 16 selections tested did not have supporting documentation for one or more key data elements.
- 14 selections tested had discrepancies between the dates per the case management system and per the supporting documentation for one or more key data elements.

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

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2019

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

Finding No.: 2019-006 Maintaining Proper Case Documentation (continued)

Effect: 40 cases did not have supporting documentation and/or there were discrepancies in the information per the case management system and the supporting documentation for one or more key data elements.

Questioned Costs: None

Identification of a repeat finding: N/A

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

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

Department of Human Services State of Hawaii

Schedule of Findings and Questioned Costs (continued)
June 30, 2019

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

Finding No.: 2019-007 Subrecipient Monitoring

Federal Agency:	U.S. Department of Agriculture	
CFDA No.:	10.551 and 10.561	
Program:	Supplemental Nutrition and Assistance Program Cluster	
Requirement:	Subrecipient Monitoring	
Type of Finding:	Non-Compliance and Material Weakness	
Federal award no.	7HI400HI4	2017 – 2019
and year:	7HI430HI4	2017 – 2019
	7HI430HI5	2018 – 2020

Criteria: 2 CFR 200.331(d) requires that the pass-through entity monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward. To address this requirement, the Department's policy is to perform an annual audit for all subrecipients. The annual audit includes a requirement for on-site reviews.

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

Context: The Department has a total of 15 subrecipients, none of which received an on-site review.

Cause: Management indicated that the on-site reviews were not performed due to staffing shortages.

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

Questioned Costs: None

Identification of a repeat finding: N/A

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

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

Department of Human Services State of Hawaii

Schedule of Findings and Questioned Costs (continued)
June 30, 2019

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

Finding No.: 2019-008 EBT Reconciliation

Federal Agency:	U.S. Department of Agriculture	
CFDA No.:	10.551 and 10.561	
Program:	Supplemental Nutrition and Assistance Program Cluster	
Requirement:	Special Tests and Provisions – EBT Reconciliation	
Type of Finding:	Non-Compliance and Material Weakness	
Federal award no.	7HI400HI4	2017 – 2019
and year:	7HI430HI4	2017 – 2019
	7HI430HI5	2018 – 2020

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

Condition: The Department did not perform the required daily reconciliations.

Context: The Department indicated that they did not perform any of the daily reconciliations during the year.

Cause: The previous accountant responsible for the daily EBT reconciliations exited the Department. In addition, the Department changed its EBT contractor and was unable to develop procedures in a timely manner to perform the required reconciliations.

Effect: Failure to perform the required reconciliations resulted in non-compliance with the requirement.

Questioned Costs: None

Identification of a repeat finding: N/A

Recommendations: We recommend that the Department work with its EBT contractor to develop the necessary procedures in order to perform the required reconciliations.

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

Department of Human Services State of Hawaii

Schedule of Findings and Questioned Costs (continued)
June 30, 2019

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

Finding No.: 2019-009 EBT Card Security

Federal Agency:	U.S. Department of Agriculture	
CFDA No.:	10.551 and 10.561	
Program:	Supplemental Nutrition and Assistance Program Cluster	
Requirement:	Special Tests and Provisions – EBT Card Security	
Type of Finding:	Non-Compliance and Material Weakness	
Federal award no.	7HI400HI4	2017 – 2019
and year:	7HI430HI4	2017 – 2019
	7HI430HI5	2018 – 2020

Criteria: 7 CFR 274.8(b)(3) requires the Department to ensure there are storage and control measures to control blank unissued electronic benefit transfer (EBT) cards. To address this requirement, the Department has adopted a policy that requires each of its processing centers to lock up all unissued EBT cards when the cards are not in use.

Condition: Unissued EBT cards were not properly secured at 2 processing centers.

Context: We selected a non-statistical sample of 4 processing centers out of the Department's 21 processing centers and noted that at 2 processing centers the unissued EBT cards that were not in use were not locked up.

Cause: Although the Department has policies and procedures in place requiring unissued EBT cards to be locked up, there was a lack of diligence in complying with the policies and procedures.

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

Questioned Costs: None

Identification of a repeat finding: N/A

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

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

Department of Human Services State of Hawaii

Schedule of Findings and Questioned Costs (continued)
June 30, 2019

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

Finding No.: 2019-010 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 Cluster	
Requirement:	Eligibility	
Type of Finding:	Non-Compliance and Material Weakness	
Federal award no.	G1801HITANF	2018
and year:	G1901HITANF	2019

Criteria: The State of Hawaii TANF State Plan (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: Eligibility determinations for 6 participants were not properly supported by the Department's records or were not completed in accordance with the State Plan.

Context: We selected a non-statistical sample of 60 participant files out of a population of approximately 7,000 cases for testing and noted exceptions in 6 case files as follows:

- 2 case files where the eligibility determination was completed outside of the required 45 day period.
- 1 case file where the benefit calculation was performed without using the current income information, resulting in potential benefit overpayments of \$147.
- 1 case file where the applicant was identified as a fleeing felon, resulting in potential benefit overpayments of \$763.
- 2 case files where the determination form was not signed by the caseworker, resulting in potential benefit overpayments of \$958.

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

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2019

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

**Finding No.: 2019-010 Maintaining Proper Case Documentation to Support Eligibility
Determinations (continued)**

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

Questioned Costs: \$1,868

Identification of a repeat finding: N/A

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

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

Department of Human Services State of Hawaii

Schedule of Findings and Questioned Costs (continued)
June 30, 2019

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

Finding No.: 2019-011 Income Eligibility and Verification System

Federal Agency:	U.S. Department of Health and Human Services	
CFDA No.:	93.558	
Program:	Temporary Assistance for Needy Families Cluster	
Requirement:	Special Test – Income Eligibility and Verification System	
Type of Finding:	Non-Compliance and Material Weakness	
Federal award no.	G1801HITANF	2018
and year:	G1901HITANF	2019

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: Income information for 7 participants were not properly supported by the Department's records or were not completed in accordance with the Department's policies and procedures.

Context: We selected 60 case files for testing and noted 7 instances where the Department did not properly use the income information obtained through IEVS to re-evaluate the initial benefit calculations. KMH noted the following:

- 6 instances in which benefit payments totaling \$2,240 were potentially overpaid to participants.
- 1 instance in which benefit payment of \$505 was potentially underpaid to a participant.

Cause: 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 amounts resulted in potential over and under payments of benefits.

Questioned costs: \$2,240

Identification of a repeat finding: N/A

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

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2019

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

Finding No.: 2019-011 Income Eligibility and Verification System (continued)

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

Department of Human Services State of Hawaii

Schedule of Findings and Questioned Costs (continued)
June 30, 2019

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

**Finding No.: 2019-012 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 Cluster	
Requirement:	Special Tests and Provisions - Child Support Non-Cooperation	
Type of Finding:	Non-Compliance and Material Weakness	
Federal award no. and year:	G1501HITANF	2015
	G1701HITANF	2017
	G1801HITANF	2018
	G1901HITANF	2019

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

Condition: There were 6 participant files where appropriate action was not taken to comply with the requirements.

Context: We selected a non-statistical sample of 10 participant files for testing, out of a population of 88 participant files, and noted 6 participant files which were initially determined by the Title IV-D agency as not cooperating with the child support enforcement requirements. During our review, these 6 participant files did not contain any correspondence, notices, or documentation to indicate any follow up action, up to and including case closure and cessation of benefits, were performed. Consequently, there may be potential overpayments of benefits of \$10,885.

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

Effect: Failure to take appropriate action resulted in non-compliance with the requirements and questioned costs.

Questioned Costs: \$10,885

Identification of a repeat finding: This is a repeat finding from the immediate previous audit, 2018-012.

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2019

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

**Finding No.: 2019-012 Maintaining Proper Case Documentation to Support Compliance with
Child Support Non-Cooperation Requirement (continued)**

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

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

Department of Human Services State of Hawaii

Schedule of Findings and Questioned Costs (continued)
June 30, 2019

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

Finding No.: 2019-013 Special Report

Federal Agency: U.S. Department of Health and Human Services
CFDA No.: 93.558
Program: Temporary Assistance for Needy Families Cluster
Requirement: Reporting
Type of Finding: Non-Compliance and Material Weakness
**Federal award no.
and year:** G1801HITANF 2018

Criteria: 45 CFR 265.9 requires each State to file an annual report containing information on the TANF program and the State's Maintenance-of-effort (MOE) program for that year. The special report ACF-204, Annual Report including the Annual Report on MOE Programs, is filed annually to meet this requirement. Further, the ACF-204 Instructions and the 2019 Compliance Supplement states that the MOE amounts claimed should equal the total MOE amounts claimed under all programs on the State's 4th quarter ACF-196R report.

Condition: The MOE reported on the originally submitted ACF-204 did not agree with the MOE reported on the ACF-196R.

Context: We selected the annual ACF-204 report for the federal fiscal year 2018 for testing and noted the total MOE expenditures reported on the ACF-204 did not agree to the total MOE reported on the ACF-196R report. A revised ACF-204 report was submitted subsequent to the fiscal year under audit and is pending approval from the Federal Administration for Children and Families (ACF).

Cause: The Department indicated that although there were established policies and procedures in place over the ACF-204 reporting, the procedures did not include a requirement to compare the MOE amount reported on the ACF-204 and the ACF-196R.

Effect: Failure to properly report the correct data resulted in non-compliance with the requirement.

Questioned Costs: None

Identification of a repeat finding: This is a repeat finding from the immediate previous audit, 2018-013.

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2019

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

Finding No.: 2019-013 Special Report (continued)

Recommendations: We recommend the Department include procedures to compare the MOE amount report on the ACF-204 and the ACF-196R to ensure compliance with Federal regulations.

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

Department of Human Services State of Hawaii

Schedule of Findings and Questioned Costs (continued)
June 30, 2019

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

Finding No.: 2019-014 Quarterly Reporting

Federal Agency:	U.S. Department of Health and Human Services
CFDA No.:	93.558
Program:	Temporary Assistance for Needy Families Cluster
Requirement:	Reporting
Type of Finding:	Non-Compliance and Material Weakness
Federal award no.	G1801HITANF 2018
and year:	G1901HITANF 2019

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 TANF Data Report.

Condition: 4 quarterly data reports were incorrectly reported.

Context: We selected all 4 quarterly data reports for testing. Each quarterly data report aggregates the information from approximately 7,000 case files. We selected a non-statistical sample of 60 case files for testing and noted the following:

- 2 quarterly reports where the key report line item “Number of months countable toward the Federal time limit” were incorrectly reported for 2 case files.
- 1 quarterly report where the key report line item “Relationship to Head-of-Household” was incorrectly reported for 1 case files.

Cause: The Department indicated that the errors were due to the fact that information was not updated in its system in 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

Identification of a repeat finding: This is a repeat finding from the immediate previous audit, 2018-014.

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2019

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

Finding No.: 2019-014 Quarterly Reporting (continued)

Recommendations: We recommend the Department update information into their system timely and accurately to ensure that the information reported is complete and accurate.

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

PART V

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Department of Human Services State of Hawaii

Summary Schedule of Prior Audit Findings
June 30, 2019

STATUS REPORT

This section contains the current status of our prior audit recommendations. The recommendations are referenced to the previous audit report for the fiscal year ended June 30, 2018, dated March 22, 2019.

Part II – Financial Statement Findings

2018-001 Financial Statement Reporting

Recommendation: We recommend the Department perform a more thorough review of the information prepared for financial reporting.

Corrective Action Taken or Planned: The process for the vouchers payable has been amended for a more detailed review so claims are not overlooked.

Status: Corrective action is ongoing. See finding 2019-001.

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

Part III – Federal Award Findings and Questioned Costs Section

2018-002 Complete Eligibility Applications and Annual Eligibility Re-Verifications in a Timely Manner

CFDA No.: 93.777 and 93.778

Program: Medicaid Cluster

Recommendation: We recommend the Department review the system logic utilized in producing the CMS Performance Metrics report to ensure the information is aggregated properly.

Corrective Action Taken or Planned: MQD has worked with the vendor to modify reporting logic on application processing times and is in the process of validating the updated logic. After validation is completed, MQD will produce updated processing time calculations.

Status: Corrective action is ongoing. See finding 2019-002.

This finding has occurred from at least the fiscal year ended June 30, 2005.

Department of Human Services State of Hawaii

Summary Schedule of Prior Audit Findings (continued)
June 30, 2019

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

2018-003 Maintaining Proper Case Documentation to Support Eligibility Determinations

CFDA No.: 93.777 and 93.778

Program: Medicaid Cluster

Recommendation: 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: Process Improvement Team (PIT) training is currently planned for leaders in August 2019. Policy clarification communications continue to be discussed.

To ensure proper documentation is obtained and/or maintained:

1. Oahu Eligibility Branch (EB)/801 scanning equipment has been added to the reception area for scanning and continues to discuss operational procedures for eligibility workers usage of the equipment to provide upfront servicing of documentation to the client cases. Scanners are already available on the back end and leaders are discussing alternatives to streamline further.
2. New scanning equipment is planned for EB through our Business Process Redesign pending financial funding and best use practices.
3. EB continues to discuss alternative ways to streamline further. Berry Dunn (vendor) has provided Team Building sessions in May 2019 continuing through July 2019 with office staff and has discussed ways to streamline. EB continues to encourage these processes.
4. Existing buck slip is currently in revision awaiting leadership review to further provide communication that can be handed to clients visiting our offices and as a handy reference for staff via telephone. Uploading of documents via online portal, navigators, and Health Care Outreach Branch (HCOB) are successful. Discussion of this process to streamline from EB processes needs to be discussed to be simplified.
5. Alert mechanisms are being discussed to see how it can be improved, what needs to be shown to simplify, and what works best for business practices.

Status: Corrective action is ongoing. See finding 2019-003.

This finding initially occurred in the fiscal year ended June 30, 2016.

Department of Human Services State of Hawaii

Summary Schedule of Prior Audit Findings (continued)
June 30, 2019

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

2018-004 Revalidation of Provider Eligibility

CFDA No.: 93.777 and 93.778

Program: Medicaid Cluster

Recommendations: We recommend the Department provide the information to support compliance on a timely basis.

Corrective Action Taken or Planned: MQD has begun the recruitment process for two of the staff members and has finalized the position descriptions of the other two staff members. We expect to have at least two of the positions hired and the other two in recruitment by September 30, 2019.

With the work on the Provider Management System Upgrade (PMSU), MQD has completed as-is and to-be workflows for most of the work in the provider enrollment section. Moving to the PMSU, which has a go-live date of March 1, 2020, will allow MQD to formalize the policies and procedures outlined in the to-be workflows and ensure the implementation of more comprehensive screenings, credentialing, and enrollment for all Medicaid providers to enhance Medicaid fraud prevention.

MQD has also sent one staff member to a national provider enrollment training at the Medicaid Integrity Institute in Columbia, SC, in May of 2019, and important updates to provider enrollment policy were obtained. Finally, MQD has secured additional one-on-one provider enrollment training from the Centers for Medicare & Medicaid Services (CMS) Provider Enrollment Oversight Group. This training is currently scheduled to occur in the first quarter of 2020.

Status: Corrective action is ongoing. See finding 2019-004.

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

2018-005 Complete Eligibility Determinations in a Timely Manner

CFDA No.: 84.126

Program: Vocational Rehabilitation

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

Department of Human Services State of Hawaii

Summary Schedule of Prior Audit Findings (continued)
June 30, 2019

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

Corrective Action Taken or Planned:

1. DVR staff received training on the policy of 60-Day Eligibility Determination and Waiver Form associated with extensions for sustained compliance with this internal control. Supervisors monitor activity due reports monthly. Branch Administrators were provided the 4/22/19 corrective action plan Internal Communication Form (CAP ICF) and reviewed recommended updates in May 2019.
 - a. 4/22/2019 CAP ICF was revised July 5, 2019, to provide further clarification with instructions for staff to utilize the activity due report to plan closures or explore waiver extensions when applicable, for cases on the monthly activity due report with the 45th day marker identified for applicants not having a documented disability recorded before the 60-day eligibility required timeline.
2. DVR staff were provided training on the appropriate usage of the waiver form for extensions of the 60-day eligibility determination process after 4/22/2019 CAP ICF was reviewed with DVR leadership on May 6, 2019.
3. Counselors utilize the activity due report from Akamai/AWARE system to plan closures or extensions when applicable for cases on the monthly report with the 45th day marker identified and still not having a documented disability.
 - a. As directed by supervisor, support staff may be scheduling counselor appointments with clients 30 days after intake appointments, if appropriate, to obtain updates on the progress of the eligibility determination process with the client.
 - b. Clerical support staff will be provided a monthly list of SSI/SSDI recipients. This will assist the division in determining presumptive eligibility to enhance compliance with 60-day eligibility determination.
4. Supervisory staff will conduct monthly validation of sustained compliance for 60-day eligibility determination or implementation of waiver within this period and identify re-training needs as applicable for staff deviations. Supervisory staff utilize the activity due reports and case review instruments for validation of compliance.

Status: Corrective action is ongoing.

This finding initially occurred in the fiscal year ended June 30, 2013.

Department of Human Services State of Hawaii

Summary Schedule of Prior Audit Findings (continued)
June 30, 2019

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

2018-006 Maintaining Proper Case Documentation to Support Eligibility Determinations

CFDA No.: 84.126

Program: Vocational Rehabilitation

Corrective Action Taken or Planned:

1. DVR supervisors review all eligibility determination documentation within the 60-day eligibility determination period (or during the extended eligibility waiver period of determination) for all direct reports, prior to case status movement to ensure the proper case documentation is compiled, accurate, and within established timelines for sustained compliance with internal controls.
2. DVR will ensure clerical staff scan and upload supporting documentation in the participant's case record as requested by supervisor and/or counselors, with validation conducted by supervisor during monthly case reviews and review of activity due reports.
 - a. DVR staff were provided guidance and support on this corrective action for compliance with existing internal controls during Supervisor/Clerical Training on June 18, 2019.
3. DVR is tracking supervisors' monthly case reviews of open and closed cases by participant ID, case master ID, case type, with supervisors' review dates in a centrally verifiable folder for compliance and monitoring at Staff Support Office (550). In addition, the case review instrument is being updated to reflect Supported Employment, Service-E, Potentially Eligible, and the use of comparable benefits monitoring. DVR management is re-tooling the case review instrument to align with federal monitoring recommendations provided in June 2019.
 - a. DVR conducted 232 (HB-41, MB-66, SBB-48, OB-37, KB-40) case reviews statewide year to date for fiscal year 2019. DVR leadership met July 9, 2019 to review draft recommended improvements to case review instruments that will be submitted to WINTAC by end of July 2019 for technical assistance before scheduling training with supervisors in August 2019.
4. Supervisors are required to review documentation of eligibility determination to identify social security presumptive eligibility as reflected in uploaded documentation to the case record before issuing authorizations for all proposed expenditures.
 - a. Clerical support staff are provided access to a monthly list of SSI/SSDI recipients. This will assist the division in determining presumptive eligibility to enhance compliance with 60-day eligibility determination.

Department of Human Services State of Hawaii

Summary Schedule of Prior Audit Findings (continued)
June 30, 2019

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

5. DVR SSO will prepare revised eligibility determination procedures and review with supervisors during July and August 2019. These procedures will reinforce supervisory approval of standardized letters with individualized edits for VR Counselor to communicate with participants the status of their eligibility determination as recommended by federal funders during on-site monitoring in June 2019.

Status: Corrective action is ongoing.

This finding initially occurred in the fiscal year ended June 30, 2016.

2018-007 Complete Individualized Plan for Employment in a Timely Manner

CFDA No.: 84.126

Program: Vocational Rehabilitation

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

Corrective Action Taken or Planned:

1. Counselors utilize the activity due report weekly to ensure compliance with timeliness in completing individualized plans for employment (IPE's) and scheduling follow up appointments. Counselors will also conduct monthly reviews with their supervisor or their designee on development of the IPE to ensure compliance associated with annual reviews of IPE's. IPE's should be signed by client and counselor, should include incorporated updates, and final updated signed copy is provided to client.
 - a. DVR staff were provided training on this corrective action for compliance with existing internal controls during Supervisor/Counselor Training on June 4, 2019.
2. DVR will issue procedures in the month of July 2019 for all IPE's to be approved by the supervisor prior to the signing and implementation of the initial IPE and annual updates to IPE.
3. Support staff assists with scheduling appointments with clients 30 days prior to the IPE activity due dates as requested by counselors and supervisors.

Department of Human Services State of Hawaii

Summary Schedule of Prior Audit Findings (continued)
June 30, 2019

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

4. DVR enforces and monitors monthly case reviews by supervisors of open and closed cases by participant ID, case master ID, case type, and reviews completion in a centrally verifiable folder for compliance and monitoring at the Staff Support Office (550). The case review instrument is being re-tooled in July 2019 to reflect Supported Employment, Service-E, Potentially Eligible, the use of comparable benefits monitoring, and recommendations provided by federal funders during on-site monitoring in June 2019.
 - a. DVR conducted 232 (HB-41, MB-66, SBB-48, OB-37, KB-40) case reviews statewide year to date for fiscal year 2019.

Status: Corrective action is ongoing.

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

2018-008 Benefit Payments in Accordance with Individualized Plan for Employment (IPE) CFDA No.: 84.126 Program: Vocational Rehabilitation

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

Corrective Action Taken or Planned:

1. Supervisors are reviewing all individualized plans for employment (IPE's) for directly reporting staff before issuing payments to ensure the services are on the active IPE and the signature page of the IPE is uploaded in AKAMAI.
 - a. Guidance and support were provided in Supervisor/Counselor Training on June 4, 2019.
2. DVR will issue procedures in the month of July 2019 for all IPE's to be approved by the supervisor prior to the signing and implementation of the IPE's for sustained compliance with internal controls.

Department of Human Services State of Hawaii

Summary Schedule of Prior Audit Findings (continued)
June 30, 2019

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

3. Clerical support staff per unit/section review all IPE's monthly to identify any deviation from having current signatures on IPE uploaded per case record, and immediately alert supervisor of all deviations identified for sustained compliance with internal controls.
 - a. DVR staff were provided guidance and support in Supervisor/Clerical Training on June 18, 2019. On-going monitoring will continue to validate sustained compliance with timelines for IPE updates and elimination of past-due activities on branch activity due reports.
4. The division has established compliance with monthly case reviews by supervisors of open and closed cases by participant ID, case master ID, case type, and review date in a centrally verifiable folder for compliance and monitoring at the Staff Support Office (SSO). In addition, the case review instrument is being updated to reflect Supported Employment, Service-E, Potentially Eligible, the use of comparable benefits monitoring, and recommendations provided by federal funders during on-site monitoring in June 2019.
 - a. DVR conducted 232 (HB-41, MB-66, SBB-48, OB-37, KB-40) case reviews statewide year to date for fiscal year 2019. Monthly case reviews will continue to be conducted by supervisors (5 each).

Status: Correction action is ongoing.

This finding initially occurred in the fiscal year ended June 30, 2017.

2018-009 Maintaining Proper Case Documentation to Support Eligibility Determination

CFDA No.: 15.875

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

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

Corrective Action Taken or Planned: As part of the business process transformation, Process Improvement Training and Instructional Design sessions are planned for August 2019 and forward.

Department of Human Services State of Hawaii

Summary Schedule of Prior Audit Findings (continued)
June 30, 2019

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

Steering committee leaders continue to discuss and research policies and procedures for clarity for eligibility to simplify processes intended to establish, train, and maintain consistent and efficient processes. Decisions and alternative methods on how to communicate these policies and procedures continues to be discussed.

Status: Corrective action is ongoing.

This finding initially occurred in the fiscal year ended June 30, 2017.

2018-010 Tracking Earmarked Funds CFDA No.: 93.667 Program: Social Services Block Grant

Recommendations: We recommend that the Department provide adequate and continuous training to its contracted entities, in addition to sufficient monitoring to demonstrate compliance with the requirements.

Corrective Action Taken or Planned: To ensure compliance with earmarking requirements, the Department continues to re-establish the Management Information and Compliance Unit (MICU) by preparing the Unit Supervisor and additional MICU Monitor positions for recruitment while the existing MICU Monitor position is currently in the recruitment and selection process.

Status: Corrective action is ongoing.

This finding initially occurred in the fiscal year ended June 30, 2013.

Department of Human Services State of Hawaii

Summary Schedule of Prior Audit Findings (continued)
June 30, 2019

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

2018-011 Subrecipient Monitoring

CFDA No.: 93.667

Program: Social Services Block Grant

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

Corrective Action Taken or Planned: To ensure compliance with subrecipient monitoring requirements, the Department has finalized the revised Management Information and Compliance Unit (MICU) policies and procedures to include a more comprehensive and detailed work-flow process. As part of the revised policies and procedures, a Provider Training and Training Plan has been developed and implemented by the Department as of June 26, 2019. The training is scheduled to occur twice a year, once prior to the start of the fiscal year and once mid-fiscal year as a refresher training.

Status: Corrective action is ongoing.

This finding initially occurred in the fiscal year ended June 30, 2017.

2018-012 Maintaining Proper Case Documentation to Support Compliance with Child Support

Non-Cooperation Requirement

CFDA No.: 93.558

Program: TANF Cluster

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

Corrective Action Taken or Planned: The Department continues to work closely with the Statewide Branch Administration to monitor the monthly report of the noncompliance alerts received from the Child Support Enforcement Agency (CSEA). The State has been working with Unisys since October 2018 to develop the BESSD Integrated Eligibility System (BES), to replace HAWI, the existing eligibility system. BES will be developed to automate many of the manual tasks staff is currently performing to enable the Department to take timely action on CSEA issues. A possible function is an interface between BES and the CSEA IT system to exchange child support and paternity data. The system is expected to rollout in 2022.

Status: Corrective action is ongoing. See finding 2019-012.

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

Department of Human Services State of Hawaii

Summary Schedule of Prior Audit Findings (continued)
June 30, 2019

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

2018-013 Special Report

CFDA No.: 93.558

Program: TANF Cluster

Recommendations: We recommend the Department revise their policies and procedures to include a requirement to compare the MOE expenditures in the ACF-204 and the ACF-196R.

Corrective Action Taken or Planned: After consulting with ACF Region 9, it was decided that the FFY 2018 ACF-204 would be finalized first since it was the most recent report submitted. Finalizing FFY 2017 ACF-204 report will be done following the approval of the amended and finalized FFY 2018 ACF-204 report.

Finalizing the FFY 2018 ACF-204 report is delayed because further discussions on specific items were necessary; wait on policy clarifications to be received; and additional time were needed to make revisions and for ACF to review the revisions.

BESSD continues to receive guidance and technical assistance from ACF Region 9.

Status: Corrective action is ongoing. See Finding 2019-013.

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

2018-014 Quarterly Reporting

CFDA No.: 84.126

Program: Vocational Rehabilitation

Recommendations: We recommend the Department correct the programming errors in the system to ensure that the information reported is complete and accurate.

Corrective Action Taken or Planned: The Financial Assistance Program office continues to monitor and correct Temporary Assistance for Needy Families (TANF) cases rejected due to errors on reports from the Office of Information Technology (OIT). Corrections are resubmitted to OIT and the report is rerun and transmitted to the appropriate office. This action shall ensure that the data has been corrected, the information is complete, and is accurately reported.

Status: Corrective action is ongoing. See Finding 2019-014.

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

Department of Human Services State of Hawaii

Summary Schedule of Prior Audit Findings (continued)
June 30, 2019

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

2018-015 Proper Determination of Benefit Amount

CFDA No.: 93.659

Program: Adoption Assistance

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: Random case reviews were conducted from October 2018 through March 2019 with a total of 62 Adoption Assistance (AA) payment files reviewed. Of those 62 files reviewed, the most common error found was that the dollar amounts in the computer system did not match the dollar amounts agreed to on the hard copy AA Agreement in the case file.

The reason for this finding is due to the across the board increase in the board rate in which staff did not have time to modify the increased board rate on the hard copy AA Agreement in the thousands of AA files. The process to update the hard copy AA agreement will require a meeting with the adoptive parent to explain the increase in AA and obtaining a new signature. There were gaps in the reviews as the sections were not able to respond to the request for the review and time lapsed waiting for a response.

Due to other priorities and shortage of staff for Program Development (PD) office and Child Welfare Services (CWS) branch during December 2018, retraining for staff did not occur until May 2019.

After January 2019, CWS decided to halt the reviews until staff were retrained due to recurring errors from the reviews such as overpayments and underpayments due to the change in foster board rates, differing amounts on the Difficulty of Care (DOC) worksheets, documents that were not signed, and many other errors too numerous to list.

After discussion with administration and Continuous Quality Improvement (CQI), CWS decided that supervisors, Social Services Assistant IV's (SSAIVs), and section administrators should be re-trained first on the correct inputting of data, documents to be included in the AA file, calculation of AA documents, checking and ensuring that proper signatures were obtained, and making the necessary changes to eliminate the errors and minimize errors.

During the May 2019 quarterly SSAIV meeting attended by the Branch Administrator, some section administrators, some supervisors, and PD staff, they were instructed on what to look for in the files, how to correct it, and what should be included in the files. A checklist of documents that belongs in each AA file was given to each attendee. PD shared the results and common errors that were found from the reviews with staff at the SSAIV meeting.

Department of Human Services State of Hawaii

Summary Schedule of Prior Audit Findings (continued)
June 30, 2019

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

Since staff have been re-trained, the monthly reviews will resume in July 2019 and continue until improvement is made for the sections. Moving forward with monitoring of its progress with this matter, CWS's plan includes supervisors and section administrators providing monthly reports to the CWS Branch and PD office on the number of cases reviewed and corrections made in preparation for the review by CQI and PD.

Although this will go beyond the end date of June 2019, CWS is committed to improve in this area and will decide if this process will continue indefinitely and become a Quality Assurance (QA) method for the AA reviews.

Status: Corrective action is ongoing.

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

2018-016 Schedule of Expenditures of Federal Awards (SEFA)

CFDA No.: 93.558

Program: TANF Cluster

Recommendations: The Department should establish formal procedures of compiling the Schedule of Expenditures of Federal Awards.

Corrective Action Taken or Planned: Adjustments have been made to the Temporary Assistance for Needy Families (TANF) worksheets for a more comprehensive recording of grant amounts and expenditures reported to the federal government.

Status: Corrective action is ongoing.

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

2018-017 Suspension and Debarment

CFDA No.: 84.126

Program: Rehabilitation Services - Vocational Rehabilitation Grants to States

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

Department of Human Services State of Hawaii

Summary Schedule of Prior Audit Findings (continued)
June 30, 2019

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

Corrective Action Taken or Planned:

1. Due to limitations of Excluded Parties List System (EPLS), DVR has used the SAM (System of Award Management) at <https://www.sam.gov/SAM/> and the state Hawaii Compliance Express system (HCE) for all new and newly executed contracts.
2. Contract Managers and Administrator will conduct annual review for compliance with required documentation.

Status: Corrective action is ongoing.

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

2018-018 Maintaining Proper Case Documentation to Support Eligibility Determinations

CFDA No.: 93.659

Program: Adoption Assistance

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: Random case reviews were conducted from October 2018 through March 2019 with a total of 62 Adoption Assistance (AA) payment files reviewed. Of those 62 files reviewed, the most common error found was that the dollar amounts in the computer system did not match the dollar amounts agreed to on the hard copy AA Agreement in the case file.

The reason for this finding is due to the across the board increase in the board rate in which staff did not have time to modify the increased board rate on the hard copy AA Agreement in the thousands of AA files. The process to update the hard copy AA agreement will require a meeting with the adoptive parent to explain the increase in AA and obtaining a new signature. There were gaps in the reviews as the sections were not able to respond to the request for the review and time lapsed waiting for a response.

Due to other priorities and shortage of staff for Program Development (PD) office and Child Welfare Services (CWS) branch during December 2018, retraining for staff did not occur until May 2019.

After January 2019, CWS decided to halt the reviews until staff were retrained due to recurring errors from the reviews such as overpayments and underpayments due to the change in foster board rates, differing amounts on the Difficulty of Care (DOC) worksheets, documents that were not signed, and many other errors too numerous to list.

Department of Human Services State of Hawaii

Summary Schedule of Prior Audit Findings (continued)
June 30, 2019

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

After discussion with administration and Continuous Quality Improvement (CQI), CWS decided that supervisors, Social Services Assistant IV's (SSAIVs), and section administrators should be re-trained first on the correct inputting of data, documents to be included in the AA file, calculation of AA documents, checking and ensuring that proper signatures were obtained, and making the necessary changes to eliminate the errors and minimize errors.

During the May 2019 quarterly SSAIV meeting attended by the Branch Administrator, some section administrators, some supervisors, and PD staff, they were instructed on what to look for in the files, how to correct it, and what should be included in the files. A checklist of documents that belongs in each AA file was given to each attendee. PD shared the results and common errors that were found from the reviews with staff at the SSAIV meeting.

Since staff have been re-trained, the monthly reviews will resume in July 2019 and continue until improvement is made for the sections. Moving forward with monitoring of its progress with this matter, CWS's plan includes supervisors and section administrators providing monthly reports to the CWS Branch and PD office on the number of cases reviewed and corrections made in preparation for the review by CQI and PD.

Although this will go beyond the end date of June 2019, CWS is committed to improve in this area and will decide if this process will continue indefinitely and become a Quality Assurance (QA) method for the AA reviews.

Status: Corrective action is ongoing.

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

PART VI
CORRECTIVE ACTION PLAN

DAVID Y. IGE
GOVERNOR



PANKAJ BHANOT
DIRECTOR

CATHY BETTS
DEPUTY DIRECTOR

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

AQCRO 20.002

March 16, 2020

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

Dear Mr. Choy:

In accordance with 2 CFR 200.511(c), we have enclosed the Department of Human Services' views of responsible officials and corrective action plans related to the State Fiscal Year (SFY) 2019 audit report findings and recommendations.

If you have any questions regarding these corrective action plans or need assistance in other areas of the SFY 2019 audit, please contact Mrs. Vickie Edu at (808) 586-4878.

Sincerely,

A handwritten signature in blue ink, appearing to be "Pankaj Bhanot", written over a horizontal line.

Pankaj Bhanot
Director

Enclosure

State of Hawaii
Department of Human Services
Corrective Action Plans for Findings and Recommendations
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Page(s), Finding	Views of Responding Officials, Corrective Action Plans, Expected Completion Date, Responding Officials
p76-77, 2019-001	<p>Views of responsible officials: The Department agrees with the finding and will implement corrective action, noting we have no control over the timely submittal of claims from the DOH.</p> <p>Corrective Action Taken or Planned: We updated our Vouchers Payable process to incorporate the review of the invoice as to when the goods or services were ordered rather than relying on the fiscal stamp on the invoice or the invoice date shown in the state accounting system. Procedures will be implemented, and information will be reviewed to ensure payables and receivables are reviewed and reported for the proper period.</p> <p>Expected Completion Date: December 31, 2020</p> <p>Responding Officials: Derek Oshiro, FMO Chief Accountant and Eric Nouchi, MQD Finance Officer</p>
p78-79, 2019-002	<p>View of responsible official: The Department agrees with the finding and will implement corrective action.</p> <p>Corrective Action Taken or Planned: With respect to timely eligibility determinations of initial applications, the Department acknowledges that of the 0.20% applications determined untimely, some may be exempt from the timeliness standard. For those that aren't exempt, we will work with staff to ensure eligibility determinations are completed in a timely manner. With respect to timely annual renewals, the Department is actively engaged in the implementation of business process improvements to ensure that staff update eligibility renewal dates when re-determining eligibility at annual renewal. Incorrect eligibility renewal dates may be inflating the numbers for redeterminations not completed timely. The Department has also identified that the system is not updating renewal dates when re-determining eligibility at annual renewal and is planning a system modification to address the issue.</p> <p>Expected Completion Date: December 31, 2020</p> <p>Responding Official: Emerald Adams, MQD KOLEA Project Manager</p>
p80-81, 2019-003	<p>View of responsible official: The Department agrees with the finding and will implement corrective action.</p> <p>Corrective Action Taken or Planned: The Department is currently undergoing a business process transformation intended to establish, train, and maintain</p>

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Page(s), Finding	Views of Responding Officials, Corrective Action Plans, Expected Completion Date, Responding Officials
	<p>consistent and efficient processes to ensure compliance with the Federal requirements.</p> <p>Expected Completion Date: On-going</p> <p>Responding Official: Emerald Adams, MQD KOLEA Project Manager</p>
p82-83, 2019-004	<p>View of responsible official: The Department does not dispute the finding and will implement corrective action.</p> <p>Corrective Action Taken or Planned: We have shared with the auditors in the past that the Department has been short staffed in the Provider Enrollment section for the work in front of us -- ever since we were told by CMS in May of 2017 that the Department is required to screen ALL of our providers -- and this overwhelming body of work often required us to use any 'available' staff to assist with various provider enrollment work that needs to be completed. This often requires on-the-job training by various personnel. This may have contributed to the lack of diligence in complying with the policies and procedures. In the past year, we have been successful in hiring one additional staff in the provider enrollment section and this has alleviated some of the workload burden. Secondly, we have had a solid working relationship with our new Provider Enrollment vendor, Koan. They have effectively helped us reduce our re-validation application backlog to near zero and are projected to continue on over the next few years as our Provider Enrollment vendor. Finally, we will be going live on March 2, 2020 with our new web-based provider enrollment system -- HOKU. As we stand up the HOKU system, we are developing an online library of policies and procedures that will be available to all staff and vendors working on provider enrollment. This will promote operational consistency and compliance for staff and vendors as providers are enrolled into the Medicaid program.</p> <p>Expected Completion Date: The HOKU system is scheduled to go-live on March 2, 2020. Our contingency plans leave open the possibility of this date being pushed back for various reasons however, our expectation is that the system will go-live no later than July 1, 2020.</p> <p>Responding Official: Jon Fujii, MQD Health Care Services Branch Administrator</p>

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Page(s), Finding	Views of Responding Officials, Corrective Action Plans, Expected Completion Date, Responding Officials
p84, 2019-005	<p>Views of responsible officials: The Department agrees with the finding and corrective action is planned and will be implemented.</p> <p>Corrective Action Taken or Planned: To be implemented and executed by May 30, 2020:</p> <ol style="list-style-type: none"> 1. By June 30, 2020, DVR will update internal controls to include clarification of written policies and procedures and roles and responsibilities of staff responsible for program income. 2. DVR will work with State Budget and Finance and DHS Fiscal Management Office for guidance on state policies associated with federal requirements for program income spending and period of performance. 3. DVR will work with Rehabilitation Services Administration (RSA) and/or WINTAC to obtain technical assistance with federal funder to ensure updates of internal controls for policies and procedures comply with federal and state regulations. 4. DVR will provide staff with training on federal and state rules for program income including but not limited to: 34 CFR 361.63, 2 CFR 200.80, 2 CFR 200.307, Randolph-Sheppard Program Income, and other applicable federal rules to provide guidance in conjunction with established state policies on the implementation of final updated internal controls, and on-going updates as applicable. 5. Copies of staff training logs will be maintained by DVR Staff Services Office for all staff, with training plans updated by June 30, 2020 to include program income internal controls as applicable. <p>Expected Completion Date: August 31, 2020</p> <p>Responding Officials: Maureen Bates, DVR Administrator and Iva Cain, DVR Assistant Administrator</p>
p85-86, 2019-006	<p>Views of responsible officials: The Department agrees with the finding and corrective action is planned and will be implemented.</p> <p>Corrective Action Taken or Planned: To be implemented and executed immediately:</p> <ol style="list-style-type: none"> 1. DVR Branch Administrators, Supervisors, and Staff Services Office will coordinate mandatory training/re-training for all VRS Counselors and Staff Services Assistants on a quarterly basis beginning immediately with

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Page(s), Finding	Views of Responding Officials, Corrective Action Plans, Expected Completion Date, Responding Officials
	<p>completion by June 30, 2021 on required documentation compliance, to include the following topics, and any additional topics identified during this training period, for sustained compliance with documentation requirements:</p> <ul style="list-style-type: none"> a. Eligibility Determinations b. Development of Individualized Plan for Employment c. Proper documentation of services provided d. Case closures in the service record and case management system e. Review of AWARE – AKAMAI System to ensure staff know how to properly capture data and ensure that data matches supporting documentation for data elements containing critical information <p>2. Complete training and review of Rehabilitation Services Administration (RSA) Policy Directive RSA-PD-16-04 as applicable to topics listed above in 1, a-d, by June 30, 2020.</p> <ul style="list-style-type: none"> a. Review of US Department of Education (DOE) Office of Special Education and Rehabilitation Services (OSERS) Guidelines: Supporting Documentation for Case Service Report (RSA-911) <p>3. Complete training and review of 34 CFR 361.47, Record of Services, by June 30, 2020.</p> <p>4. DVR will address discrepancies of dates and supporting documentation between the case management system and case file record by assigning the following responsibilities to DVR staff:</p> <ul style="list-style-type: none"> a. Staff Services Office <ul style="list-style-type: none"> i. Provide additional guidance by way of checklists, cheat sheets, desk aids or updates/reminders to current case management tools for Branch Administrators, Supervisors, and Counselors ii. Update case review instruments iii. Monitor “Activity Due” reports to ensure that timeframes are being met in accordance with Policy and Procedures iv. Quarterly case reviews of a random sampling to check that data in case management system match supporting documentation b. Branch Administrators

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Page(s), Finding	Views of Responding Officials, Corrective Action Plans, Expected Completion Date, Responding Officials
	<ul style="list-style-type: none"> i. Attend refresher trainings and be available to train staff as well as ensure understanding and execution of the proper case management protocols ii. Update Supervisor and VRS training plans and annual performance expectations to reflect compliance with documentation requirements, and implementation of training topics in item 1, a-e c. Supervisors/Branch Administrators (as applicable) <ul style="list-style-type: none"> i. Monitor case records prior to case status movement to ensure proper case documentation is compiled and matches data reported in case management system and meets established timelines ii. Use case review instruments to conduct monthly case reviews of open and closed cases by participant ID, case master ID, case type and review date iii. Report monthly on case reviews conducted, and identify needed corrections with timeline for completion, and follow up case review deadline d. Counselors <ul style="list-style-type: none"> i. Utilize case management tools to ensure all dates and documentation match in both case management system and case file record ii. Utilize "Activity Due" reports and notifications iii. Use case file record checklists provided by SSO e. Support Staff <ul style="list-style-type: none"> i. Assist in uploading documentation and monitoring that support documentation are available and match with system dates and recorded activities ii. Assist in scheduling appointments within applicable timelines to meet the timelines for eligibility determination, development of the individualized plan for employment (IPE), and IPE updates <p>Expected Completion Date: June 30, 2021</p> <p>Responding Officials: Maureen Bates, VR Administrator and Iva Cain, VR Assistant Administrator</p>

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Page(s), Finding	Views of Responding Officials, Corrective Action Plans, Expected Completion Date, Responding Officials
p87, 2019-007	<p>View of responsible official: The Department agrees with the finding and corrective action is planned and will be implemented.</p> <p>Corrective Action Taken or Planned: The SNAP office will have a staff member with subrecipient monitoring experience returning to the office at the end of February 2020 after being on a special assignment for the division. Subrecipient monitoring visits will then be planned for March 2020 and will be conducted by our returning staff member. For training purposes, we will have additional SNAP Program staff shadow the returning staff member on these visits to ensure annual on-site reviews are performed as required. We will also be revising our policies and procedures to include annual risk assessments of subrecipients to determine the appropriate level of subrecipient monitoring.</p> <p>Expected Completion Date: September 30, 2020</p> <p>Responding Official: Scott Nakasone, BESSD Assistant Administrator</p>
p88, 2019-008	<p>Views of responsible officials: The Department agrees with the finding and have implemented corrective action.</p> <p>Corrective Action Taken or Planned: At the time of the audit, Fiscal Management Office (FMO) was only reconciling on a monthly basis however since February 2020, FMO has begun doing daily EBT reconciliation of the ASAP and FIS report EBTDS408-1 <u>"Daily ASAP Balancing."</u> Policies and procedures are in place to ensure that the required reconciliations are done daily.</p> <p>Completion Date: February 2020</p> <p>Responding Officials: Sabrina Young, BESSD EBT Project Manager and Joey Wong, FMO Accountant</p>
p89, 2019-009	<p>View of responsible official: The Department agrees with the finding and have implemented corrective action.</p> <p>Corrective Action Taken or Planned: The EBT Office has begun doing EBT Management Evaluation Reviews of the Processing Centers to ensure compliance with EBT Issuance, System Access, and Inventory Control & Management procedures and regulations. The EBT Office has completed Section One, which is the OR&L processing center and the KPT processing center. The EBT Office will be continuing with these EBT Management</p>

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Page(s), Finding	Views of Responding Officials, Corrective Action Plans, Expected Completion Date, Responding Officials
	<p>Evaluation Reviews of Section Two, Kauai Section, and Maui Section later this year. The EBT Office will complete the EBT Management Evaluation Reviews of all (20) twenty processing centers statewide by December 2022. The EBT Office will then continue these Management Evaluations on a rotational basis by completing two sections (one Oahu and one neighbor island) each year.</p> <p>Expected Completion Date: December 2022</p> <p>Responding Official: Sabrina Young, BESSD EBT Project Manager</p>
p90-91, 2019-010	<p>View of responsible official: The Department agrees with the finding and will implement corrective action.</p> <p>Corrective Action Taken or Planned: The Department continues to work with the Statewide Branch Administration (SBA) to enhance their existing case timeliness and efficiency monitoring on new application and on-going cases. We will advise the Section Administrators to continue printing monthly case reports to track each of the processing center's processing time frames, alerts, and to include random reviews of cases to prevent avoidable errors. We will also recommend that the SBA have a "resource folder" for the Eligibility staff to check individuals and case alerts to catch certain warnings on any existing disqualifications as fleeing felons.</p> <p>The Department also continues to work with the Staff Development Office (SDO) to ensure newly hired Eligibility staff are properly trained. The SDO will continue to emphasize the importance of Financial Application processing, Alerts, Notices, Income, Payment Determination, Proper Documentation, and Interviews in trainings.</p> <p>The Department will ensure that the Eligibility staff is using the most current updated Standard Desk Aid and ensure proper Participation Codes are used when processing through the HAWI system by providing a headline announcement of updates and reminders where everyone will be notified. Emphasis will be placed on diligence in complying with the policies and procedures to ensure compliance with the federal requirements.</p> <p>The Department is currently working on development of the Benefits Eligibility Solution (BES), the new eligibility system which will automate most of these processes and alerts. BES is projected to be operational within 2 years.</p>

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Page(s), Finding	Views of Responding Officials, Corrective Action Plans, Expected Completion Date, Responding Officials
	<p>Expected Completion Date: December 2022</p> <p>Responding Official: Araceli Gamil, BESSD TANF Program Specialist</p>
p92-93, 2019-011	<p>View of responsible official: The Department agrees with the finding and will implement corrective action.</p> <p>Corrective Action Taken or Planned: The Department will continue to work with the Statewide Branch Administrator to enforce and ensure that all Eligibility staff follow current procedures on IEVS. The Department will also work with the Staff Development Office to emphasize the importance of IEVS to all Eligibility staff and to provide clear instructions when changes in procedures occur.</p> <p>Expected Completion Date: December 31, 2020</p> <p>Responding Official: Araceli Gamil, BESSD TANF Program Specialist</p>
p94-95, 2019-012	<p>View of responsible official: The Department agrees with this finding and will implement corrective action.</p> <p>Corrective Action Taken or Planned: The Department continues to work closely with the Statewide Branch Administration to ensure that Eligibility staff inform clients of the child support cooperation requirements during the application and reapplication interview. Eligibility staff will be reminded that documentation is to be filed in the Electronic Case Folder and inputted into the HAWI system. Clients should also be sent appropriate notices. A report is sent monthly to the Branch of the noncompliance alerts received from CSEA and action should be taken to suspend benefits until non-cooperation is addressed.</p> <p>A HAWI system modification request has been submitted to the Department's Office of Information Technology (OIT) to stop the system from purging CSEA non-cooperation alerts. The alert shall be manually cleared after appropriate action is taken by Eligibility staff. This will result in closer monitoring of the efficiency and timeliness of required actions. This will help reduce the amount of overpaid TANF benefits and prevent child support noncooperation by recipients. OIT has placed the modification request in its work prioritization queue.</p>

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Page(s), Finding	Views of Responding Officials, Corrective Action Plans, Expected Completion Date, Responding Officials
	<p>The Department is in the process of developing the Benefits Eligibility Solution (BES), a new eligibility system to replace HAWI. Program staff are working with an IT contractor to incorporate system solutions in BES to ensure Eligibility staff can take timely and appropriate action when CSEA notifies the Department of a client who fails to cooperate with child support activities. BES is expected to be operational in two years.</p> <p>Expected Completion Date: December 2022</p> <p>Responding Official: Araceli Gamil, BESSD TANF Program Specialist</p>
p96-97, 2019-013	<p>Views of responsible officials: The Department does not dispute this finding and have implemented corrective action.</p> <p>Corrective Action Taken or Planned: The Department will continue to utilize the worksheet templates that were developed to record and classify actual expenditures on the ACF-196R and ACF-204 reports. The worksheets include a “cross-walk” to identify and map where State MOE and SSP-MOE expenditures on the ACF-196R are reported on the ACF-204 (i.e. Attachment B forms). This “cross-walk” worksheet ensures the balances match on both reports, expenditures are reported in same/similar categories, and helps to identify any discrepancies between the reports. Policies and procedures will be updated to include the requirement to compare the MOE amount reported on the ACF-204 and the ACF-196R.</p> <p>BESSD continues to receive technical assistance from ACF Region 9 to finalize the FFY 2017 ACF-196R and ACF-204 reports. The Department will continue to forward the completed worksheet templates to ACF to review before the actual ACF-196R and ACF-204 reports are finalized and formally submitted.</p> <p>Expected Completion Date: Completed FFY 2018 ACF-204 July 2019. FFY 2017 ACF-196R and ACF-204 reports, are to be reviewed and finalized by 10/31/20. Pursuit of technical assistance from ACF will be on-going.</p> <p>Responding Officials: Catherine Scardino, BESSD Employment and Training Program Administrator, and Paul Higa, BESSD Financial Assistance Program Administrator</p>
p98-99, 2019-014	<p>View of responsible official: The Department agrees with the finding and will implement corrective action.</p>

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Page(s), Finding	Views of Responding Officials, Corrective Action Plans, Expected Completion Date, Responding Officials
	<p><i>Corrective Action Taken or Planned:</i> The Department will continue to communicate with the Statewide Branch Administration to remind Eligibility staff of application of policies and correct procedures when determining eligibility to ensure that the information reported is complete and accurate. The Department will also continue to work with the Staff Development Office to ensure financial training provides accurate information and instructions in determining a client's TANF eligibility. Effective tools such as situational examples, timetables, and other visual modalities to demonstrate clear explanations and understanding of the policies of TANF program will be utilized in training. The Department will also continue to closely monitor active cases by requesting monthly TANF data reports from the Office of Information Technology to show TANF cases that are nearing their 60 months as well as detailed reports on system coding errors to ensure updated information will be input timely.</p> <p><i>Expected Completion Date:</i> December 31, 2020</p> <p><i>Responding Official:</i> Araceli Gamil, BESSD TANF Program Specialist</p>