

**State of Hawaii
Department of Health
Financial and Compliance Audit
June 30, 2012**

**Submitted by
The Auditor
State of Hawaii**

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Department of Health
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Report of Independent Auditors

The Auditor
State of Hawaii

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of Hawaii, Department of Health (the "Department"), as of and for the year ended June 30, 2012, which collectively comprise the Department's basic financial statements as listed in the index. These financial statements are the responsibility of the Department's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the basic financial statements of the Department are intended to present the financial position and the changes in the financial position, cash flows and budgetary comparisons, where applicable, of only that portion of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of Hawaii that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2012, or the changes in its financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, the Department revised its financial statements for changes in the estimates of the beverage container deposit liability and unredeemed deposits revenue as of and for the year ended June 30, 2012 from amounts previously reported in our report dated March 22, 2013.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Department as of June 30, 2012, and the respective changes in financial position, and where applicable, cash flows and budgetary comparisons thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 22, 2013 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 11 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements as a whole. The accompanying schedule of expenditures of federal awards (the "Schedule") is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. As described in Note 1 to the Schedule, the accompanying Schedule was prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 information is fairly stated in all material respects on the basis of accounting described in Note 1 to the Schedule, in relation to the basic financial statements as a whole.

Accuity LLP

Honolulu, Hawaii
August 22, 2013

State of Hawaii
Department of Health
Management's Discussion and Analysis (Unaudited)
June 30, 2012

This Management Discussion and Analysis ("MD&A") presents a narrative overview and analysis of the financial activities and performance of the State of Hawaii, Department of Health (the "Department") during the fiscal year that ended on June 30, 2012. Please read it in conjunction with the Department's Financial Statements including its related notes (which follow this section) as well as the subsequent Schedule of Expenditures of Federal Awards ("SEFA"). The following is a brief description of the contents of those three sections:

Overview of the Financial Statements

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

Department-wide Financial Statements

The department-wide financial statements provide information about the Department's overall financial position and results of operations. These statements, which are presented on an accrual basis of accounting, consist of the Statement of Net Assets and the Statement of Activities.

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

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

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

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

Fund Financial Statements

The fund financial statements include the Department's: (1) governmental funds, for which activities are funded primarily from appropriations from the State of Hawaii, by revenues from the master tobacco settlement agreement between the states and tobacco companies, beverage container deposit program collections, and federal grants; (2) proprietary funds, which consist of revolving loan funds and are reported similar to business activities; and (3) fiduciary funds. The governmental funds are presented

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on the modified accrual basis of accounting. The proprietary and the fiduciary funds are presented on the accrual basis of accounting.

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

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

To reiterate, the Department has three types of funds:

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

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

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

Notes to Financial Statements

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

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Schedule of Expenditures of Federal Awards

Other information consists of the Schedule of Expenditures of Federal Awards and the Notes to the Schedule of Expenditures of Federal Awards. The SEFA reports federal awards to the Department expended on the cash basis of accounting for the year ended June 30, 2012.

Financial Highlights

- The Department's total net assets increased from \$746.0 million as of June 30, 2011 to \$768.1 million as of June 30, 2012, or by approximately \$22.1 million. The total increase in net assets was attributed to increases in the Department's governmental activities net assets of \$15.2 and business type activities' net assets of \$6.9 million during the year.
- The Department's governmental funds reported an aggregate increase in fund balance of approximately \$20.9 million during the year totaling \$165.2 million at June 30, 2012. Note that this is based on the fund balance at June 30, 2011 of \$144.3 million.
- The Department's proprietary funds, consisting of two revolving loan funds, reported an increase in net assets of \$6.8 million for FY 2012. Total net assets were \$567.5 million at June 30, 2012 compared to the FY 2011 year end total of \$560.7 million.

Department-Wide Financial Analysis

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

Condensed Statement of Net Assets
June 30, 2012
(\$000)

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current assets	\$ 261,502	\$ 257,202	\$ 189,843	\$ 174,618	\$ 451,345	\$ 431,820
Capital assets	58,049	61,255	306	333	58,355	61,588
ARRA advances	-	-	15,460	37,984	15,460	37,984
Loans receivable, noncurrent	-	-	363,750	349,450	363,750	349,450
Total assets	\$ 319,551	\$ 318,457	\$ 569,359	\$ 562,385	\$ 888,910	\$ 880,842
Current liabilities	\$ 100,019	\$ 114,363	\$ 376	\$ 565	\$ 100,395	\$ 114,928
Long term liabilities	18,929	18,722	1,483	1,170	20,412	19,892
Total liabilities	118,948	133,085	1,859	1,735	120,807	134,820
Net assets						
Invested in capital assets	58,049	61,255	305	333	58,354	61,588
Restricted	121,494	115,877	567,195	560,317	688,689	676,194
Unrestricted	21,060	8,240	-	-	21,060	8,240
Total net assets	200,603	185,372	567,500	560,650	768,103	746,022
Total liabilities and net assets	\$ 319,551	\$ 318,457	\$ 569,359	\$ 562,385	\$ 888,910	\$ 880,842

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June 30, 2012

As noted earlier, changes in net assets may serve over time as a useful indicator of the Department's financial position. As of June 30, 2012, the Department's total net assets were approximately \$768.1 million.

At June 30, 2012, in addition to cash in the state treasury approximating \$304.9 million, the Department had total loans receivable from county governments in the amount of \$398.6 million arising from its two revolving loan funds. The Department had total liabilities of \$120.8 million at June 30, 2012 of which \$9.4 million relates to accrued wages and employee benefits payable. Approximately \$40.8 million in liabilities relate to vouchers and contracts payable. At June 30, 2012, restricted net assets were \$688.7 million. The restrictions arise from legal and contractual agreements.

Condensed Statement of Activities
June 30, 2012
(\$000)

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenue						
Program revenues						
Charges for services	\$ 34,159	\$ 32,627	\$ 7,378	\$ 7,488	\$ 41,537	\$ 40,115
Operating grants and contributions	113,718	114,989	30,861	31,415	144,579	146,404
General revenues						
State appropriated funds	393,836	367,144	-	-	393,836	367,144
Non-imposed fringe benefits	42,611	39,851	-	-	42,611	39,851
Tobacco settlement funds	47,146	46,986	-	-	47,146	46,986
Environmental fees and taxes	58,324	37,930	-	-	58,324	37,930
Total revenues	689,794	639,527	38,239	38,903	728,033	678,430
Expenses						
General	39,466	34,937	-	-	39,466	34,937
Environmental health	64,029	71,422	37,261	3,644	101,290	75,066
Behavior health	211,497	205,541	-	-	211,497	205,541
Health resources	304,893	280,180	-	-	304,893	280,180
Total expenses	619,885	592,080	37,261	3,644	657,146	595,724
Excess before transfers	69,909	47,447	978	35,259	70,887	82,706
Transfers	(54,678)	(49,533)	5,872	5,872	(48,806)	(43,661)
Change in net assets	15,231	(2,086)	6,850	41,131	22,081	39,045
Net assets						
Beginning of year	185,372	187,458	560,650	519,519	746,022	706,977
End of year	\$ 200,603	\$ 185,372	\$ 567,500	\$ 560,650	\$ 768,103	\$ 746,022

Governmental activities increased the Department's net assets by \$15.2 million in FY 2012. There was an increase in the State appropriated funds of \$26.7 million from FY 2011 to FY 2012. The increase was due mainly to the furlough savings which were no longer in effect for FY 2012; increased funding for the Home and Community Based Services Waiver Program, the Early Intervention Services Program, and the Child and Adolescent Mental Health Division.

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Revenues of the Department's business-type activities, which decreased by \$0.7 million from 2011, consist of the Department's environmental loan programs — one for water pollution control and the other for drinking water treatment — were generated from charges for services, program investment income, and federal assistance program funds as well as state matching funds. Charges for services consist primarily of administration loan fees and interest income on loans related to the Department's two revolving loan programs. The majority of the programs' investment income is from the Department's participation in the State Treasury Investment Pool System.

For the fiscal year ended June 30, 2012, business-type activities increased the Department's net assets by \$6.8 million to \$567.5 million as compared to the fiscal year ending June 30, 2011.

Total Department-wide expenses for FY 2012 were \$657.1 million of which \$619.9 million was for governmental activities. As compared to FY 2011, total Department-wide expenses were \$595.7 million of which \$592.1 million was for governmental activities. Overall, the Department is organized into four major administrations.

The Behavioral Health Services Administration expended a significant 32.2 percent or \$211.5 million of departmental funds with an increase of \$6.0 million over FY 2011. This administration is responsible for providing available and coordinated mental health and substance abuse treatment and prevention programs. Programs within this administration are:

- Adult Mental Health Division ("AMHD") that includes the Hawaii State Hospital and Community Mental Health Center Branches;
- Child and Adolescent Mental Health Division ("CAMHD") which includes seven Family Guidance Centers and the Family Court Liaison Branches; and
- Alcohol and Drug Abuse Division ("ADAD") which plans for and purchases substance abuse prevention and treatment services for adolescents and adults.

The increase in expenditures is mainly due to the carryover of \$5.9 million in federal funds to FY 2012 for the Hawaii State Prevention Framework State Incentive Grant in ADAD.

The Health Resources Administration expended approximately 46.4 percent of all expenses. FY 2012 expenditures for this Administration increased \$24.7 million over FY 2011. Major programs in this administration include:

- Developmental Disabilities Division ("DDD") that services disabled clients in Hawaii while addressing the conditions of the Makin Settlement;
- Family Health Services Division ("FHSD") that administers the State's Early Intervention program for children zero to three in compliance with the Federal Individual with Disabilities Education Act, Part C as well as serving children, youth and families through its three branches, namely, Children with Special Health Needs, Maternal and Child Health, and Women Infants and Children;
- Emergency Medical Services and Injury Prevention System Branch that includes the State's mandated Emergency Medical Services, which operates the State's emergency ambulance service in the four major counties, and the injury prevention program;
- Communicable Disease Division which provides tuberculosis control, Hansen's disease control programs in the community and at Kalaupapa, and STD/AIDS prevention services;

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- Disease Outbreak Control Division which provides immunization and disease investigation services as well as provides emergency response to disease outbreaks and potential acts of bioterrorism;
- General Medical and Preventative Services Division (formerly Dental Health Division) provides public health dental services to the State's disabled clientele and public health nursing services.

This administration provides a wide array of public health services in addition to meeting the court settlement conditions, which results in the expenditure of a high percentage of departmental funds.

The Environmental Health Administration is responsible for the management of the clean air, clean water, solid and hazardous waste, public health sanitation, vector control, and purity of food and drugs. It expended approximately 15.4 percent of the departmental funds with an increase of \$26.2 million expended versus FY 2011. The increase in expenses is due to the forgiveness of \$30.6 million in ARRA State Revolving Fund loans, which is heavily federally funded through the Environmental Protection Agency. This administration also manages both the Water Pollution Control Revolving and the Drinking Water Treatment Revolving Loan Funds.

Finally, General Administration provides the overall leadership and oversight for the Department. It includes administrative support staff, three district health offices, and five administratively attached agencies. This administration expends approximately 6.0 percent of the departmental funds.

The following table presents revenues and expenditures of the governmental funds for FY 2012 and FY 2011 (\$000):

	2012	2011
Revenues		
State general fund allotments	\$ 393,836	\$ 367,143
Non-imposed fringe benefits	42,611	39,851
Tobacco settlement funds	48,746	46,986
Deposit beverage container program	39,414	18,387
Intergovernmental	129,327	124,260
Taxes, fees, fines and other	39,582	42,188
Investment income (loss)	(12)	3,913
Total revenues	693,504	642,728
Expenditures		
General administration	39,744	34,524
Environmental health	63,911	70,874
Behavioral health	210,986	206,248
Health resources	303,605	278,262
Total expenditures	618,246	589,908
Excess of revenues over expenditures before transfers	\$ 75,258	\$ 52,820

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

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During the fiscal year ended June 30, 2012, general fund revenues were \$424.3 million, including \$42.5 million for fringe benefits paid directly from the State general fund. General fund expenditures were \$397.1 million, including the \$42.5 million for fringe benefits discussed above.

For FY 2012, the tobacco settlement fund earned revenues of \$48.7 million. \$42.5 million was transferred to other State departments and agencies of which \$4.6 million was for the Children's Health Insurance Program of the Department of Human Services, \$12.7 million was for the University of Hawaii to pay debt service on revenue bonds to support construction of a new health and wellness center, to include a new medical school and bioresearch center in Kakaako, and \$22.7 million was required to be transferred to the State's General Fund in accordance with Act 79/90.

In FY 2012, the deposit beverage container fund earned revenues of \$39.4 million from beverage container deposit administrative fees and unredeemed containers and investment income. Of this amount received, \$23.6 million was paid to redemption centers or utilized to fund the program. The fund collected \$45.4 million in deposits from distributors and repaid \$36.2 million in deposits to consumers during FY 2012.

The proprietary funds consist of two funds: Water Pollution Control Revolving Fund and Drinking Water Treatment Revolving Loan Fund and are reported in the department-wide statement of net assets and statement of activities as business-type activities.

The Water Pollution Control Revolving Fund accounts for federal and state funds used to provide loans to county governments for the construction of wastewater treatment facilities and the repayment of principal, interest and fees from such loans and investment of such monies. During FY 2012, this fund received \$24.9 million and \$3.2 million of federal and state funds, respectively. The fund also disbursed \$48.5 million in loan proceeds and collected \$27.6 million in principal repayments in 2012. As compared to 2011, the fund collected \$12.1 million and \$3.2 million in federal and state contributions, and disbursed \$33.6 million in loan proceeds and collected \$25.6 million in principal payments.

The Drinking Water Treatment Revolving Loan Fund accounts for federal and state match funds used to provide loans and other types of financial assistance to public water systems for drinking water infrastructure and the repayment of principal interest and fees from such loans and the investment of such monies. During FY 2012, this fund received \$5.6 million and \$2.7 million of federal and state funds, respectively. The fund also disbursed \$3.4 million in loan proceeds and collected \$5.1 million in principal repayments in 2012. As compared to 2011, the fund collected \$14.2 million and \$2.7 million in federal and state contributions, and disbursed \$9.2 million in loan proceeds and collected \$4.5 million in principal payments.

The Department accounts for funds held as an agent and/or trustee for certain individuals in the fiduciary funds.

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Budgetary Analysis

The following budget information relates to the general fund, tobacco settlement fund, and deposit beverage container fund for 2012:

	Budgeted Amounts (\$000)		Actual on a Budgetary Basis (\$000)
	Original	Final	
General fund			
Revenues	\$ 405,976	\$ 396,102	\$ 385,555
Expenditures			
General administration	19,524	19,192	18,295
Environmental health	16,739	16,150	14,878
Behavioral health	192,964	187,487	182,097
Health resources	176,749	173,273	170,285
Tobacco settlement fund			
Revenues	58,426	58,509	48,746
Expenditures	58,426	58,509	31,006
Deposit beverage container fund			
Revenues	71,118	71,118	54,677
Expenditures	71,118	71,118	66,736

The differences between the original budgeted appropriation and actual expenditures for the general fund were due in part to the \$1.4 million in restrictions and \$5.4 million in program review reductions that were assessed against the Department for FY 2012.

For the tobacco settlement fund, the actual expenditures of \$31.0 million in FY 2012 were \$17.7 million less than the actual revenues received. The difference between the budgeted amount and the actual is due to transfers out to other State agencies that are not reflected as expenditures.

The deposit beverage container program recognized revenues on a budgetary basis of \$54.7 million, which is based on the actual number of containers sold. In fiscal year 2011, there were 907,119,634 containers sold. The amount of containers sold decreased to 907,093,351 in fiscal year 2012.

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Capital Assets

As of June 30, 2012, the Department's governmental activities had invested approximately \$58 million (net of accumulated depreciation) in a broad range of capital assets. See Note 4 to the Department's financial statements for a description of capital assets activities for the fiscal year ended June 30, 2012.

Capital Assets
Governmental Activities
June 30, 2012
(\$000)

	2012	2011
Land	\$ 1,018	\$ 1,018
Land and building improvements	146,376	144,579
Furniture and equipment	22,896	22,691
Total	170,290	168,288
Accumulated depreciation	112,241	107,033
Total capital assets, net	\$ 58,049	\$ 61,255

Currently Known Facts, Decisions, or Conditions

The effects of the ongoing slowdown in the State's economy compounded the Department's challenge to continue to provide needed services to ensure the overall health and safety of the people of our state, especially in the areas of mental health and developmental disabilities.

The Department has continued to evaluate and monitor the statewide service delivery system of the adult mental health program in order to improve service delivery and to contain operational costs.

In FY 2012, AMHD serviced 11,062 clients as compared to the 11,194 clients serviced in FY 2011. AMHD's Access Line continues to provide the community with a resource site for information as well as a referral point for possible clients.

In the developmental disabilities program, the number of clients decreased by 59 clients in FY 2012. In FY 2012, the program served 2,558 clients in the home and community-based waiver program as compared to 2,617 clients served in FY 2011. Further, the Federal Medical Assistance Percentage ("FMAP") decreased from 62.63 percent to 51.79 percent for the period July 2011 to September 2011. The FMAP decreased to 50.48 percent for the period October 2011 to September 2012. The FY 2012 year-end Average Cost per Client ("APC") increased to \$40,231 as compared to the FY 2011 year-end APC of \$38,619. With the increase in the APC, program management continues to reevaluate the program and its services to achieve operational efficiencies.

And lastly, the Water Pollution Control Revolving Fund ("WPCRF") executed a total of four loan agreements for \$95.8 million. The Drinking Water Treatment Revolving Loan Fund ("DWTRLF") executed a total of five loan agreements for \$5.9 million during FY 2012. Further, the WPCRF expected to execute a total of six loan agreements in the amount of \$24.4 million while the DWTRLF expected to execute a total of four loan agreements for \$6.1 million in FY 2013.

Effective September 1, 2012, the beverage container fee increased from \$0.01 to \$0.015.

State of Hawaii
Department of Health
Department-wide – Statement of Net Assets
June 30, 2012

	Governmental Activities	Business-Type Activities	Total
Assets			
Current assets			
Equity in cash and cash equivalents and investments in State Treasury	\$ 152,066,793	\$ 152,792,267	\$ 304,859,060
Receivables			
Due from State Treasury	77,965,746	-	77,965,746
Due from other State agencies	1,496,955	-	1,496,955
Accrued interest and loan fees	16,414	1,923,196	1,939,610
Accounts receivable	792,862	-	792,862
Due from Federal government	3,863,729	239,601	4,103,330
Tobacco settlement receivable	25,300,000	-	25,300,000
Current maturities of loans receivable	-	34,888,092	34,888,092
	<u>109,435,706</u>	<u>37,050,889</u>	<u>146,486,595</u>
Total current assets	261,502,499	189,843,156	451,345,655
ARRA advances	-	15,460,098	15,460,098
Loans receivable, net of current maturities	-	363,750,384	363,750,384
Capital assets, net of accumulated depreciation	<u>58,048,945</u>	<u>305,538</u>	<u>58,354,483</u>
Total assets	<u>\$ 319,551,444</u>	<u>\$ 569,359,176</u>	<u>\$ 888,910,620</u>
Liabilities and Net Assets			
Current liabilities			
Vouchers and contracts payable	\$ 40,581,849	\$ 170,035	\$ 40,751,884
Accrued wages and employee benefits payable	9,284,299	98,202	9,382,501
Accrued vacation, current portion	8,468,171	107,432	8,575,603
Workers' compensation liability	514,206	-	514,206
Deferred income	423,640	-	423,640
Due to other State agencies	37,518,469	-	37,518,469
Beverage container deposits	<u>3,228,765</u>	<u>-</u>	<u>3,228,765</u>
Total current liabilities	100,019,399	375,669	100,395,068
Accrued vacation, net of current portion	18,929,076	312,359	19,241,435
Other postemployment benefits	<u>-</u>	<u>1,171,102</u>	<u>1,171,102</u>
Total liabilities	118,948,475	1,859,130	120,807,605
Commitments and contingencies			
Net assets			
Invested in capital assets	58,048,945	305,538	58,354,483
Restricted for			
Loans	-	567,194,508	567,194,508
Tobacco prevention and control	12,651,421	-	12,651,421
Capital projects	10,900,053	-	10,900,053
Other purposes	97,942,324	-	97,942,324
Unrestricted	<u>21,060,226</u>	<u>-</u>	<u>21,060,226</u>
Total net assets	<u>200,602,969</u>	<u>567,500,046</u>	<u>768,103,015</u>
Total liabilities and net assets	<u>\$ 319,551,444</u>	<u>\$ 569,359,176</u>	<u>\$ 888,910,620</u>

The accompanying notes are an integral part of this statement.

State of Hawaii
Department of Health
Department-wide – Statement of Activities
Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Primary Government		
				Governmental Activities	Business-Type Activities	Total
Primary government						
Governmental activities						
General administration	\$ 39,466,450	\$ 450,376	\$ 11,648,574	\$ (27,367,500)	\$ -	\$ (27,367,500)
Environmental health administration	64,028,956	7,618,444	11,547,252	(44,863,260)	-	(44,863,260)
Behavioral health services administration	211,496,942	18,130,232	5,337,968	(188,028,742)	-	(188,028,742)
Health resources administration	304,892,767	7,959,507	85,184,501	(211,748,759)	-	(211,748,759)
Total governmental activities	619,885,115	34,158,559	113,718,295	(472,008,261)	-	(472,008,261)
Business-type activities						
Environmental health loan programs	37,260,715	7,377,823	30,860,546	-	977,654	977,654
Total business-type activities	37,260,715	7,377,823	30,860,546	-	977,654	977,654
Total primary government	\$ 657,145,830	\$ 41,536,382	\$ 144,578,841	(472,008,261)	977,654	(471,030,607)
General revenues						
State general fund allotments, net				393,836,246	-	393,836,246
Non-imposed employee fringe benefits				42,611,367	-	42,611,367
Environmental response tax				1,314,717	-	1,314,717
Deposit beverage container fee				39,414,095	-	39,414,095
Advance glass disposal fee				767,376	-	767,376
Tobacco tax				16,827,592	-	16,827,592
Tobacco settlement funds				47,145,982	-	47,145,982
Transfers				(54,677,669)	5,872,000	(48,805,669)
Total general revenues and transfers				487,239,706	5,872,000	493,111,706
Change in net assets				15,231,445	6,849,654	22,081,099
Net assets at July 1, 2011				185,371,524	560,650,392	746,021,916
Net assets at June 30, 2012				\$ 200,602,969	\$ 567,500,046	\$ 768,103,015

The accompanying notes are an integral part of this statement.

State of Hawaii
Department of Health
Governmental Funds – Balance Sheet
June 30, 2012

	General	Tobacco Settlement	Deposit Beverage Container	Other Funds	Total Governmental
Assets					
Equity in cash and cash equivalents and investments in State Treasury	\$ -	\$ 28,002,812	\$ 23,477,880	\$ 100,586,101	\$ 152,066,793
Due from State Treasury	67,065,693	-	-	10,900,053	77,965,746
Due from other State agencies	-	-	-	1,244,955	1,244,955
Accrued interest receivable	-	-	-	16,414	16,414
Accounts receivable	-	-	792,861	-	792,861
Due from Federal government	-	-	-	3,863,729	3,863,729
Total assets	<u>\$ 67,065,693</u>	<u>\$ 28,002,812</u>	<u>\$ 24,270,741</u>	<u>\$ 116,611,252</u>	<u>\$ 235,950,498</u>
Liabilities and Fund Balances					
Liabilities					
Vouchers and contracts payable	\$ 13,701,715	\$ 1,052,461	\$ 11,560,920	\$ 14,266,753	\$ 40,581,849
Accrued wages and employee benefits	7,254,405	81,310	21,937	1,926,647	9,284,299
Deferred income	-	-	-	423,640	423,640
Due to other State agencies	1,581,404	15,697,065	-	-	17,278,469
Beverage container deposits	-	-	3,228,765	-	3,228,765
Total liabilities	<u>22,537,524</u>	<u>16,830,836</u>	<u>14,811,622</u>	<u>16,617,040</u>	<u>70,797,022</u>
Fund balance (deficit)					
Restricted for					
Federal grant programs	-	-	-	418,350	418,350
Trust fund programs	-	-	-	3,618,991	3,618,991
Medicaid programs	-	-	-	25,155,079	25,155,079
Committed to					
Health resources administration	-	-	-	38,088,459	38,088,459
Behavioral health administration	-	-	-	1,475,071	1,475,071
Environmental health administration	-	-	-	18,574,009	18,574,009
General administration	-	-	-	1,764,200	1,764,200
Tobacco settlement program	-	11,171,976	-	-	11,171,976
Deposit beverage container program	-	-	9,459,119	-	9,459,119
Capital projects activities	-	-	-	10,400,053	10,400,053
Assigned to					
Behavioral health administration	47,983,672	-	-	-	47,983,672
Health resources administration	8,403,161	-	-	-	8,403,161
General administration	3,346,921	-	-	-	3,346,921
Environmental health administration	402,440	-	-	-	402,440
Unassigned	(15,608,025)	-	-	500,000	(15,108,025)
Total fund balance (deficit)	<u>44,528,169</u>	<u>11,171,976</u>	<u>9,459,119</u>	<u>99,994,212</u>	<u>165,153,476</u>
Total liabilities and fund balance	<u>\$ 67,065,693</u>	<u>\$ 28,002,812</u>	<u>\$ 24,270,741</u>	<u>\$ 116,611,252</u>	<u>\$ 235,950,498</u>

The accompanying notes are an integral part of this statement.

State of Hawaii
Department of Health
Reconciliation of the Governmental Funds' Fund Balance to the
Governmental Activities' Net Assets
June 30, 2012

Total fund balance – governmental funds	\$ 165,153,476
Amounts reported for governmental activities in the statement of net assets are different because	
Tobacco settlement receivable (net of vouchers payable and Due to State of Hawaii amounts) is not available for current financial resources and therefore is not reported as an asset in the governmental funds.	5,060,000
Capital assets used in governmental activities are not financial resources and therefore not reported as an asset in the governmental funds.	58,048,945
Compensated absences reported in the statement of net assets do not require the use of current financial resources and therefore are not reported as liabilities in the governmental funds.	(27,397,247)
Workers' compensation liability reported in the statement of net assets does not require the use of current financial resources and therefore is not reported as a liability in the governmental funds.	(514,206)
Receivables from other State agencies are not available to pay for current-period expenditures and therefore are not reported as an asset in the governmental funds.	252,001
Net assets of governmental activities	<u>\$ 200,602,969</u>

State of Hawaii
Department of Health
Governmental Funds – Statement of Revenues, Expenditures and Changes in Fund Balance
Year Ended June 30, 2012

	General	Tobacco Settlement	Deposit Beverage Container	Other Funds	Total
Revenues					
State allotment, net	\$ 381,865,246	\$ -	\$ -	\$ 11,971,000	\$ 393,836,246
Intergovernmental	-	-	-	129,326,784	129,326,784
Tobacco settlement	-	48,745,982	-	-	48,745,982
Deposit beverage container program	-	-	39,414,095	-	39,414,095
Non-imposed employee fringe benefits	42,452,666	-	-	158,701	42,611,367
Taxes, fees, fines and other	-	-	-	39,581,580	39,581,580
Investment income (loss)	-	(106)	-	(11,941)	(12,047)
Total revenues	424,317,912	48,745,876	39,414,095	181,026,124	693,504,007
Expenditures					
General administration	19,592,250	-	-	20,151,300	39,743,550
Environmental health	18,917,241	-	23,640,726	21,353,167	63,911,134
Behavioral health services	183,227,027	-	-	27,759,061	210,986,088
Health resources	175,348,025	19,378,060	-	108,879,121	303,605,206
Total expenditures	397,084,543	19,378,060	23,640,726	178,142,649	618,245,978
Excess (deficiency) of revenues over expenditures	27,233,369	29,367,816	15,773,369	2,883,475	75,258,029
Other financing sources (uses)					
Transfers in	217,195	-	-	15,240,158	15,457,353
Transfers out	(12,012,755)	(42,451,139)	-	(15,392,284)	(69,856,178)
Total other financing sources (uses)	(11,795,560)	(42,451,139)	-	(152,126)	(54,398,825)
Net change in fund balance	15,437,809	(13,083,323)	15,773,369	2,731,349	20,859,204
Fund balance at July 1, 2011	29,090,360	24,255,299	(6,314,250)	97,262,863	144,294,272
Fund balance at June 30, 2012	\$ 44,528,169	\$ 11,171,976	\$ 9,459,119	\$ 99,994,212	\$ 165,153,476

The accompanying notes are an integral part of this statement.

State of Hawaii
Department of Health
Reconciliation of the Governmental Funds' Change in Fund Balance to the
Governmental Activities' Change in Net Assets
Year Ended June 30, 2012

Net change in fund balance – total governmental funds	\$ 20,859,204
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 is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays for the year.	(3,205,597)
Increase in 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 the governmental funds.	(305,653)
Increase in the noncurrent portion of workers' compensation liability reported in the statement of activities do not require the use of current financials resources and therefore is not reported as an expenditure in the governmental funds.	(188,509)
Tobacco settlement fund receivable to be allocated to other state agencies.	1,025,000
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.	<u>(2,953,000)</u>
Change in net assets of governmental activities	<u>\$ 15,231,445</u>

The accompanying notes are an integral part of this statement.

State of Hawaii
Department of Health
General Fund – Budgetary Comparison Statement
Year Ended June 30, 2012

	Budgeted Amounts		Actual Amounts
	Original	Final	(Budgetary Basis)
Revenues			
Current-year appropriations	\$ 405,976,416	\$ 396,102,341	\$ 385,555,351
Total revenues	405,976,416	396,102,341	385,555,351
Expenditures			
General administration	19,524,379	19,192,481	18,295,101
Environmental health administration	16,738,812	16,150,341	14,877,910
Behavioral health services administration	192,964,417	187,486,699	182,097,171
Health resources administration	176,748,808	173,272,820	170,285,169
Total expenditures	405,976,416	396,102,341	385,555,351
Excess of revenues over expenditures	\$ -	\$ -	\$ -

The accompanying notes are an integral part of this statement.

State of Hawaii
Department of Health
Tobacco Settlement Fund – Budgetary Comparison Statement
Year Ended June 30, 2012

	Budgeted Amounts		Actual Amounts
	Original	Final	(Budgetary Basis)
Revenues			
Current-year funds	\$ 58,426,333	\$ 58,508,710	\$ 48,745,982
Total revenues	58,426,333	58,508,710	48,745,982
Expenditures			
Health resources administration	58,426,333	58,508,710	31,005,846
Total expenditures	58,426,333	58,508,710	31,005,846
Excess of revenues over expenditures	\$ -	\$ -	\$ 17,740,136

The accompanying notes are an integral part of this statement.

State of Hawaii
Department of Health
Deposit Beverage Container Fund – Budgetary Comparison Statement
Year Ended June 30, 2012

	Budgeted Amounts		Actual Amounts
	Original	Final	(Budgetary Basis)
Revenues			
Current-year funds	\$ 71,117,852	\$ 71,117,890	\$ 54,677,348
Total revenues	71,117,852	71,117,890	54,677,348
Expenditures			
Environmental health administration	71,117,852	71,117,890	66,736,363
Total expenditures	71,117,852	71,117,890	66,736,363
Excess of expenditures over revenues	\$ -	\$ -	\$ (12,059,015)

The accompanying notes are an integral part of this statement.

State of Hawaii
Department of Health
Proprietary Funds – Statement of Net Assets
June 30, 2012

	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Loan Fund	Total
Assets			
Current assets			
Equity in cash and cash equivalents and investments in State Treasury	\$ 107,108,422	\$ 45,683,845	\$ 152,792,267
Loan fees receivable	404,359	683,964	1,088,323
Accrued interest receivable	688,316	65,792	754,108
Other accrued interest	56,392	24,373	80,765
Due from federal government	-	239,601	239,601
Current portion of loans receivable	29,834,212	5,053,880	34,888,092
Total current assets	138,091,701	51,751,455	189,843,156
ARRA advances	9,616,711	5,843,387	15,460,098
Loans receivable, net of current portion	294,647,677	69,102,707	363,750,384
Capital assets, net of accumulated depreciation, at cost	36,884	268,654	305,538
Total assets	<u>\$ 442,392,973</u>	<u>\$ 126,966,203</u>	<u>\$ 569,359,176</u>
Liabilities			
Current liabilities			
Accounts payable and other accrued liabilities	\$ 141,057	\$ 234,612	\$ 375,669
Total current liabilities	141,057	234,612	375,669
Accrued vacation, net of current portion	213,048	99,311	312,359
Other postemployment benefits	843,601	327,501	1,171,102
Total liabilities	1,197,706	661,424	1,859,130
Net Assets			
Invested in capital assets	36,884	268,654	305,538
Restricted – expendable	441,158,383	126,036,125	567,194,508
Total net assets	441,195,267	126,304,779	567,500,046
Total liabilities and net assets	<u>\$ 442,392,973</u>	<u>\$ 126,966,203</u>	<u>\$ 569,359,176</u>

The accompanying notes are an integral part of this statement.

State of Hawaii
Department of Health
Proprietary Funds – Statement of Revenues, Expenses and
Changes in Fund Net Assets
Year Ended June 30, 2012

	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Loan Fund	Total
Operating revenues			
Interest income from loans	\$ 2,904,650	\$ 275,163	\$ 3,179,813
Administrative loan fee	1,776,548	2,421,462	4,198,010
Total revenues	4,681,198	2,696,625	7,377,823
Expenses			
Administrative	1,790,582	550,713	2,341,295
State program management	-	1,165,596	1,165,596
Water protection	-	1,188,539	1,188,539
Small systems	-	12,576	12,576
Total expenses	1,790,582	2,917,424	4,708,006
Operating income (loss)	2,890,616	(220,799)	2,669,817
Nonoperating revenues and expenses			
State contributions	3,157,000	2,715,000	5,872,000
Federal contributions	17,546,590	4,852,116	22,398,706
Federal ARRA contributions	7,370,596	789,257	8,159,853
Principal forgiveness for SRF	(2,000,000)	-	(2,000,000)
Principal forgiveness for ARRA	(17,263,909)	(13,288,800)	(30,552,709)
Other interest income	155,187	146,800	301,987
Total nonoperating revenues and expenses	8,965,464	(4,785,627)	4,179,837
Change in net assets	11,856,080	(5,006,426)	6,849,654
Net assets			
Beginning of year	429,339,187	131,311,205	560,650,392
End of year	\$ 441,195,267	\$ 126,304,779	\$ 567,500,046

The accompanying notes are an integral part of this statement.

State of Hawaii
Department of Health
Proprietary Funds – Statement of Cash Flows
Year Ended June 30, 2012

	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Loan Fund	Total
Cash flows from operating activities			
Interest income from loans	\$ 2,895,373	\$ 283,909	\$ 3,179,282
Administrative loan fees	1,757,425	2,491,353	4,248,778
Principal repayments on loans	27,615,449	5,074,627	32,690,076
Disbursement of loan proceeds	(48,510,298)	(3,353,292)	(51,863,590)
Payments to employees	(1,417,773)	(826,065)	(2,243,838)
Payments to vendors	(191,338)	(2,048,414)	(2,239,752)
Net cash provided by (used in) operating activities	(17,851,162)	1,622,118	(16,229,044)
Cash flows from noncapital financing activities			
State contributions	3,157,000	2,715,000	5,872,000
Federal contributions	17,546,590	4,755,322	22,301,912
Federal ARRA contributions	7,370,596	789,257	8,159,853
Disbursement of ARRA advances	(7,239,628)	(789,257)	(8,028,885)
Net cash provided by noncapital financing activities	20,834,558	7,470,322	28,304,880
Cash flows from capital and related financing activities			
Purchase of equipment	(39,612)	(32,304)	(71,916)
Net cash used in capital and related financing activities	(39,612)	(32,304)	(71,916)
Cash flows from investing activities			
Other interest income	226,035	161,022	387,057
Net cash provided by investing activities	226,035	161,022	387,057
Net increase in cash	3,169,819	9,221,158	12,390,977
Equity in cash and cash equivalents and investments in State Treasury			
Beginning of year	103,938,603	36,462,687	140,401,290
End of year	\$ 107,108,422	\$ 45,683,845	\$ 152,792,267

The accompanying notes are an integral part of this statement.

State of Hawaii
Department of Health
Proprietary Funds – Statement of Cash Flows
Year Ended June 30, 2012

	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Loan Fund	Total
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities			
Operating income (loss)	\$ 2,890,616	\$ (220,799)	\$ 2,669,817
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Depreciation expense	2,728	96,932	99,660
Principal forgiveness for SRF	(2,000,000)	-	(2,000,000)
Change in assets and liabilities			
Loan fees receivable	(19,124)	1,721,335	1,702,211
Accrued interest on loans receivables	(9,277)	8,745	(532)
Loans receivable	(18,894,848)	69,891	(18,824,957)
Accounts payable and other accrued liabilities	(44,547)	(180,611)	(225,158)
Other postemployment benefits	223,290	126,625	349,915
Net cash provided by (used in) operating activities	<u>\$ (17,851,162)</u>	<u>\$ 1,622,118</u>	<u>\$ (16,229,044)</u>

The accompanying notes are an integral part of this statement.

State of Hawaii
Department of Health
Fiduciary Funds – Statement of Fiduciary Net Assets
June 30, 2012

	Agency Funds
Assets	
Cash and cash equivalents	\$ 487,992
Total assets	<u>\$ 487,992</u>
Liabilities	
Due to others	\$ 487,992
Total liabilities	<u>\$ 487,992</u>

The accompanying notes are an integral part of this statement.

State of Hawaii
Department of Health
Notes to Financial Statements
June 30, 2012

1. Organization and Summary of Significant Accounting Policies

Financial Reporting Entity

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

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

The Department is part of the executive branch of the State of Hawaii (the "State"). The financial statements of the Department are intended to present the financial position and the changes in financial position and cash flows, where applicable, of only that portion of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State as of June 30, 2012, and the changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America. The State Comptroller maintains the central accounts for all State funds and publishes a comprehensive annual financial report for the State annually, which includes the Department's financial activities.

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

Department-wide Financial Statements

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

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

State of Hawaii
Department of Health
Notes to Financial Statements
June 30, 2012

Fund Financial Statements

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Department considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

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

The Department has the option under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, to elect to apply all Financial Accounting Standards Board ("FASB") pronouncements issued after November 30, 1989, unless the FASB statements conflict with GASB pronouncements. The Department's enterprise funds have elected not to apply FASB statements after the applicable date.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

Governmental Funds (Governmental Activities):

- *General Fund* – The General Fund is the general operating fund of the Department. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund presented is a part of the State's General Fund and is limited to only those appropriations and obligations of the Department.
- *Special Revenue Funds* – Special revenue funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.
- *Capital Projects Funds* – Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds) and are included in Other Funds in the fund financial statements.

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

- *Restricted* – Balances that are restricted for specific purposes by external parties such as creditors, grantors or other governments.

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

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

Proprietary Funds (Business-Type Activities):

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

Fiduciary Funds:

- *Agency Funds* – Agency funds are used to account for cash collected and disbursed by the Department in a custodial capacity.

Equity in Cash and Cash Equivalents and Investments in State Treasury

The State Director of Finance is responsible for the safekeeping of cash in the State Treasury in accordance with State laws. The Director of Finance may invest any monies of the State which, in the Director's judgment, are in excess of the amounts necessary for meeting the immediate requirements of the State. Effective August 1, 1999, cash is pooled with funds from other State agencies and departments and deposited into approved financial institutions or in the State Treasury Investment Pool System. Funds in the investment pool accrue interest based on the average weighted cash balances of each account.

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

GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, requires disclosures over common deposit and investment risks related to credit risk, interest rate risk, and foreign currency risk. Investments can be categorized by type, maturity and custodian to determine the level of interest rate, credit and custodial risk assumed by the Department. However, as all of the Department's monies are held in the State cash pool, the Department does not manage its own investments and the types of investments and related interest rate, credit and custodial risks are not determinable at the department level. The risk disclosures of the State's cash pool are included in the State's 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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In November 2012, DAGS issued guidance informing State agencies participating in the State Treasury Investment Pool that the change in the fair value of the auction rate securities resulted in a loss for the year ended June 30, 2012 and that each participating State agency would be allocated a portion of the loss. The Department's total allocated loss for fiscal 2012 amounted to \$762,139.

In March 2013, the State sold the balance of its investment in auction rate securities at cost.

Due from State Treasury

The State Director of Finance is responsible for the safekeeping of all cash in the State Treasury in accordance with State laws. Currently, separate accounts are not maintained in the State Treasury for the Department's general operating and capital appropriations. Although these appropriations are available to the Department to expend, custody of the funds remains with the State. Unspent general and capital appropriations that continue to be available to the Department for expenditure at the end of the fiscal year are reported as Due from State Treasury in the accompanying fund and department-wide financial statements.

Due from Other State Agencies

Receivables due from other State agencies consist of reimbursements from the Department of Human Services ("DHS") for Medicaid payments that the Department makes to providers of health services. The Department is responsible to pay the State portion of the Medicaid claims, and DHS reimburses the Department for the Federal portion of the claims. The receivable of \$2.7 million is comprised of various Medicaid rehabilitation option claims.

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

Tobacco Settlement

In November 1998, the State settled its tobacco lawsuit as part of a nationwide settlement involving 46 other states and various tobacco industry defendants. Under the settlement, those tobacco companies that have joined in the Master Settlement Agreement will pay the State approximately \$1.3 billion over a 25-year period. The Department is responsible for administering the Hawaii Tobacco Settlement Special Fund. The Department receives all tobacco settlement monies and then allocates and appropriates 80 percent of the funds to other State agencies and other entities in accordance with Hawaii Revised Statutes ("HRS") 328L-2. The Department receives annual payments on April 15 of each year for tobacco settlements earned for the preceding calendar year.

The Department received approximately \$47,100,000 in tobacco settlement proceeds during the year ended June 30, 2012. In accordance with GASB Technical Bulletin No. 04-01, *Tobacco Settlement Recognition and Financial Reporting Entity Issues*, the Department has recorded a tobacco settlement receivable for \$25,300,000 in the statement of net assets representing tobacco settlements earned for the period January 1, 2012 through June 30, 2012.

ARRA Advances

The proprietary funds received American Recovery and Reinvestment Act ("ARRA") stimulus money that was used to provide construction grants with no interest or loan fees and 100 percent principal forgiveness upon completion of approved projects. The proprietary funds are allowed to use a portion of the ARRA funds for specified purposes as set forth in the grant. ARRA funds provided to counties have been classified as "ARRA Advances" on the Statement of Net Assets upon disbursement. The ARRA advances will be completely forgiven and expensed once all the conditions and compliance requirements have been satisfied by the counties. If conditions and

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compliance requirements are not met, the grants will convert to loans, requiring repayment of principal, interest and loan fees.

Loans Receivable

Loans made to counties are funded by federal capitalization grants, State matching funds, repayments and investment interest income. Loan funds are disbursed to local agencies as they expend for the purposes of the loan and request reimbursement from the proprietary funds. Interest is calculated from the date that funds are advanced. After the final disbursement has been made, the payment schedule identified in the loan agreement is adjusted for the actual amounts disbursed and interest accrued during the project period. The capitalization grants for federal fiscal years 2011 and 2010 allow for portions of loans to be forgiven upon satisfaction of certain requirements.

Administrative Loan Fees

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

Capital Assets

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

Land	All capitalized
Land improvements	\$100,000
Building and building improvements	\$100,000
Furniture and equipment	\$5,000

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

	Governmental- Type Activities	Business- Type Activities
Land improvements	15	Not applicable
Building and building improvements	30	Not applicable
Furniture and equipment	5–7	5–7

Deferred Income

Deferred income at the fund level and department-wide level arise when the Department receives resources before it has a legal claim to them. In subsequent periods, when the revenue recognition criteria is met, or when the Department has a legal claim to the resources, the liability for deferred income is removed from the statement of net assets and balance sheet, and revenue is recognized. Deferred income at June 30, 2012 consisted primarily of Federal grant funds for which all eligibility requirements had not yet been met.

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Due to Other State Agencies

Payables to other State agencies consist of reimbursements to DHS for the State portion of the Medicaid claims for the Developmental Disabilities program and funds allocated to other State agencies in accordance with the Hawaii Tobacco Settlement Special Fund. The State portion of the Medicaid claims for the Development Disabilities program is \$1.6 million and the amount allocated to other funds in accordance with the Hawaii Tobacco Settlement Special Fund is \$35.9 million.

Beverage Container Deposits and Container Fees

Deposits of \$0.05 are made by distributors to the deposit beverage container fund for each qualifying container. The deposit beverage container fund maintains all deposits until the redemption centers claim reimbursement for the deposits that they pay out to the consumers. The deposit beverage container fund maintains the deposits that are expected to be redeemed.

Amounts paid out to the consumers are based on containers redeemed or a predetermined weight per type of container redeemed (i.e., aluminum, mixed plastics, etc.). These weights are determined based on the mix of containers redeemed and are reviewed when necessary. Management estimates, based on past collections and success of recycling in other states, that 76 percent of the containers will be redeemed every year. The remaining 24 percent of the containers are expected to be unredeemed; therefore, 24 percent of the deposits collected were recognized into revenue in 2012. Historically, management periodically reevaluated the estimated redemption rate to determine the amount of unredeemed deposit revenue to recognize on an annual basis. In 2012, management changed its method of estimating the liability for unredeemed deposits. Under this new method, management adjusts the deposit liability balance and unredeemed deposit revenue recognized based on the amount of deposits reimbursed to redemption centers in the first three months of the subsequent fiscal year related to deposits collected prior to year end. The change in method was reflected in the financial statements as a change in accounting estimate and resulted in additional \$19.5 million in unredeemed deposits being recognized as revenue in 2012, as reflected in Note 6.

As the redemption rate has been over 70 percent since fiscal year 2008, in accordance with Chapter 342G, Part VIII, HRS, the director of health increased the beverage container fee to \$0.015 per container, effective September 1, 2012.

According to HRS 342G-104, any funds that accumulate in the Deposit Beverage Container Fund shall be retained by the fund unless determined to be in excess by the Legislature.

Accrued Vacation

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

Accumulated Sick Leave

Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limit, but may be taken only in the event of illness and is not convertible to pay upon termination of employment. However, a State employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the State's Employees' Retirement System ("ERS"). At June 30, 2012, accumulated sick leave was approximately \$69 million.

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Intrafund and Interfund Transactions

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

Use of Estimates

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

Encumbrances

Encumbrance accounting, under which purchase orders and contractual commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed in the governmental funds. Although appropriations generally lapse at year end, open encumbrances are reported as reservations of fund balances because the commitments will be honored when the goods or services are received. Encumbrances do not constitute expenditures or liabilities. Encumbrances at June 30, 2012 for the Department's governmental funds were approximately:

General	\$ 60,136,000
Tobacco settlement	7,581,000
Deposit beverage container	3,805,000
Other funds	47,253,000
Total	<u>\$ 118,775,000</u>

Use of Restricted and Unrestricted Net Assets

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

Administrative Costs

DAGS assesses the Department's special funds centralized and administrative service fees, which are recorded as direct expenditures in the Department's funds.

Effective for fiscal year 2014, the Deposit Beverage Container Deposit Special Fund is exempted from paying the central service fee assessed by DAGS under Act 228, SLH 2013.

New Accounting Pronouncements

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this Statement is to enhance the usefulness of the Codification of Governmental Accounting and Financial Reporting Standards by incorporating guidance that previously could only be found in certain FASB and AICPA pronouncements. The requirements of this Statement are effective for reporting periods beginning after December 15, 2011. Management does not expect that this Statement will have a material effect on the Department's financial statements.

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The objective of this Statement is to provide financial reporting guidance for deferred outflows of resources and deferred inflows of

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resources and their effects on a government's net position. The requirements of this Statement are effective for reporting periods beginning after December 15, 2011. Management has not yet determined the effect this Statement will have on the Department's financial statements.

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The objective of this Statement is to reclassify assets and liabilities as deferred outflows of resources and deferred inflow of resources for consistency in financial reporting. The requirements of this Statement are effective for reporting periods beginning after December 15, 2012. Management has not yet determined the effect this Statement will have on the Department's financial statements.

In March 2012, GASB issued Statement No. 66, *Technical Corrections*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity. The requirements of this Statement are effective for reporting periods beginning after December 15, 2012. Management has not yet determined the effect this Statement will have on the Department's financial statements.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. The objective of this Statement is to establish accounting and financial reporting requirements for pensions of governments. The requirements of this Statement are effective for reporting periods beginning after June 15, 2014. Management has not yet determined the effect this Statement will have on the Department's financial statements.

2. Budgeting and Budgetary Control

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

- *The Budget* – Not less than 20 days before the State Legislature convenes in every odd-numbered year, the Governor submits to the State Legislature, and to each member thereof, a budget which contains the program and budget recommendation of the Governor for the succeeding biennium. The budget in general contains: the State program structure; statements of statewide objectives; financial requirements for the next biennium to carry out the recommended programs; a summary of State receipts and revenues in the last completed fiscal year; a revised estimate for the fiscal year in progress; and an estimate for the succeeding biennium.
- *Legislative Review* – The State Legislature considers the Governor's proposed program and financial plan and budget, evaluates alternatives to the Governor's recommendations, adopts programs, and determines the State budget. It may, from time to time, request the Department of Budget and Finance and any agency to conduct such analysis of programs and finances as will assist in determining the State's program and financial plan and budget.
- *Program Execution* – Except as limited by policy decisions of the Governor, appropriations by the State Legislature, and other provisions of law, the agencies responsible for the programs administer the programs and are responsible for their proper management. The appropriations by the State Legislature for a biennium are allocated between the two fiscal years of the biennium in the manner provided in the budget or appropriations act and as further prescribed by the Director of Finance. No appropriation transfers or changes between programs or agencies can be made without legislative authorization. Authorized transfers or changes, when made, should be reported to the State Legislature.

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Budgetary control is maintained at the appropriation line item level established in the appropriation acts.

Budgets are adopted for the Department's funds and are prepared on the basis of cash receipts and amounts disbursed, which is a basis of accounting other than GAAP.

The major differences between the budgetary and GAAP basis are that: (1) the budget is prepared on the basis of cash receipts and amounts disbursed; and (2) encumbrances are recorded as the equivalent of expenditures under the budgetary basis.

Since budgetary basis differs from GAAP, budget and actual amounts in the budgetary comparison statements are presented on the budgetary basis. A reconciliation of revenues in excess of (less than) expenditures on a budgetary basis at June 30, 2012, to revenues in excess of (less than) expenditures presented in conformity with GAAP follows:

	General Fund	Tobacco Settlement Fund	Deposit Beverage Container Fund
Excess of revenues over expenditures (expenditures over revenues) – actual on a budgetary basis	\$ -	\$ 17,740,136	\$ (12,059,015)
Reserve for encumbrances at year end	60,136,194	7,581,169	3,805,311
Expenditures for liquidation of prior year's encumbrances	(45,508,706)	(3,203,445)	(8,103,704)
Accruals and other adjustments	<u>12,605,881</u>	<u>7,249,956</u>	<u>32,130,777</u>
Excess of revenues over expenditures (expenditures over revenues) – GAAP basis	<u>\$ 27,233,369</u>	<u>\$ 29,367,816</u>	<u>\$ 15,773,369</u>

3. Loans Receivable

At June 30, 2012, the proprietary funds loans receivable consisted of loans to county governmental units for the water pollution control and drinking water treatment programs. The loans require annual, semi-annual or quarterly payments, including interest at 0.00 percent to 3.02 percent, commencing not later than one year after project completion, notice to proceed, or loan agreement date. Final payment is due not later than twenty years after project completion. In fiscal year 2012, \$2,000,000 and \$30,553,000 in loans and ARRA advances, respectively, were forgiven. All loans and advances forgiven were in accordance with required conditions. Accrued interest receivable on the loans amounted to approximately \$754,000 at June 30, 2012.

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The following is a schedule of principal payments due on loans for projects completed or in progress as of June 30, 2012:

Year ending June 30,	
2013	\$ 34,888,092
2014	32,778,239
2015	29,113,302
2016	28,775,715
2017	27,735,185
Thereafter	245,347,943
	<u>\$ 398,638,476</u>

4. Capital Assets

Capital asset activity for the year ended June 30, 2012 was as follows:

	Beginning Balance	Additions	Dispositions	Ending Balance
Governmental activities				
Capital assets, not being depreciated				
Land	\$ 1,018,080	\$ -	\$ -	\$ 1,018,080
Total capital assets not being depreciated	1,018,080	-	-	1,018,080
Capital assets, being depreciated				
Land improvements	1,862,927	-	-	1,862,927
Building and building improvements	142,715,088	1,797,656	-	144,512,744
Furniture and equipment	22,690,973	697,827	(492,916)	22,895,884
Total capital assets being depreciated	167,268,988	2,495,483	(492,916)	169,271,555
Less: Accumulated depreciation				
Land improvements	1,862,927	-	-	1,862,927
Building and building improvements	88,836,926	4,269,201	-	93,106,127
Furniture and equipment	16,332,673	1,397,006	(458,043)	17,271,636
Total accumulated depreciation	107,032,526	5,666,207	(458,043)	112,240,690
Governmental activities capital assets, net	<u>\$ 61,254,542</u>	<u>\$ (3,170,724)</u>	<u>\$ (34,873)</u>	<u>\$ 58,048,945</u>
Business-type activities				
Capital assets being depreciated				
Furniture and equipment	\$ 1,246,795	\$ 71,916	\$ (3,512)	\$ 1,315,199
Total capital assets being depreciated	1,246,795	71,916	(3,512)	1,315,199
Less: Accumulated depreciation for equipment	913,513	99,660	(3,512)	1,009,661
Total accumulated depreciation	913,513	99,660	(3,512)	1,009,661
Business-type activities capital assets, net	<u>\$ 333,282</u>	<u>\$ (27,744)</u>	<u>\$ -</u>	<u>\$ 305,538</u>

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Current period depreciation expense was charged to functions as follows:

Governmental activities	
General administration	\$ 631,441
Environmental health	732,991
Behavioral health services	1,761,304
Health resources	2,540,471
Total depreciation expense – governmental activities	<u>\$ 5,666,207</u>
Business-type activities	
Environmental health	<u>\$ 99,660</u>
Total depreciation expense – business-type activities	<u>\$ 99,660</u>

5. Accrued Vacation

The changes to the accrued vacation liability during 2012 were as follows:

	Governmental Activities	Business-Type Activities
Balance at July 1, 2011	\$ 27,091,593	\$ 451,988
Increase	11,297,852	136,952
Decrease	<u>(10,992,198)</u>	<u>(169,149)</u>
Balance at June 30, 2012	27,397,247	419,791
Less: Current portion	<u>8,468,171</u>	<u>107,432</u>
Noncurrent portion	<u>\$ 18,929,076</u>	<u>\$ 312,359</u>

6. Beverage Container Deposits

The changes to the beverage container deposit liability during 2012 were as follows:

Balance at July 1, 2011	\$ 24,409,272
Increase: Deposits received from distributor	45,354,668
Decrease: Payments made to redemption centers, net of refunds	(36,192,370)
Decrease: Unredeemed deposits recognized as revenue	(10,885,122)
Decrease: Additional unredeemed deposits revenue due to change in estimate	<u>(19,457,683)</u>
Balance at June 30, 2012	<u>\$ 3,228,765</u>

7. Non-Imposed Employee Fringe Benefits

Non-imposed employee fringe benefits related to general and State special fund salaries are funded by the State. These costs, totaling approximately \$42.6 million for the fiscal year ended June 30, 2012, have been reported as revenues and expenditures of the Department's general and State special revenue funds.

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

8. Employee Benefit Plans

Substantially all employees of the Fund participate in the State's various employee benefit plans, including the ERS, post-employment healthcare and life insurance plan, and a deferred compensation plan. For more information on the State's benefit plans, refer to the State ERS' CAFR. The State's CAFR can be found on the DAGS website. The ERS CAFR can be found at the ERS website: <https://ers.ehawaii.gov/resources/financials>.

Employees' Retirement System

The ERS is a cost-sharing, multiple-employer public employee retirement plan. The ERS provides retirement benefits as well as death and disability benefits. All contributions, benefits and eligibility requirements are established by Chapter 88, HRS, and can be amended by legislative action. Contributions made to the plan were \$21.1 million, \$20.7 million and \$22.9 million for the fiscal years ended June 30, 2012, 2011 and 2010, respectively.

Post-Employment Healthcare and Life Insurance Benefits

The State contributes to the Hawaii Employer-Union Health Benefits Trust Fund ("EUTF"), an agent multiple-employer defined benefit plan. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees, and their dependents. The eligibility requirements for retiree health benefits are based on date of hire.

State Policy

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 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 proportionate share of contributions made by each component unit and proprietary fund for retiree health benefits.

Annual OPEB Cost

The components of the allocated annual OPEB cost (annual required contribution, interest on net OPEB obligation, and adjustment to annual required contribution) are insignificant to the Department's two proprietary funds. The following table shows the allocated annual OPEB cost that has been allocated to the two proprietary funds of the Department for the year ended June 30, 2012:

	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Loan Fund	Total
Annual OPEB cost	\$ 305,720	\$ 173,371	\$ 479,091
Less: Contributions made	<u>(82,430)</u>	<u>(46,746)</u>	<u>(129,176)</u>
Increase in net OPEB obligation	223,290	126,625	349,915
Net OPEB obligation, beginning of year	<u>620,311</u>	<u>200,876</u>	<u>821,187</u>
Net OPEB obligation, end of year	<u>\$ 843,601</u>	<u>\$ 327,501</u>	<u>\$ 1,171,102</u>

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Amount of Contributions Made

Contributions are financed on a pay-as-you-go basis and the Department's contributions for the years ended June 30, 2012, 2011, and 2010 were approximately \$2.5 million, \$2.2 million, and \$2.3 million.

Required Supplementary Information and Disclosures

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

Deferred Compensation Plan

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

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

9. Commitments and Contingencies

Operating Leases

The Department leases various office facilities and equipment through fiscal year 2017 on a long-term basis as provided for in the lease agreements. The following is a schedule of minimum future rent payments on noncancelable operating leases at June 30, 2012:

Year ending June 30,	
2013	\$ 393,800
2014	392,100
2015	353,500
2016	243,500
2017	113,300
	\$ 1,496,200

Rental expenditures for the fiscal year ended June 30, 2012 approximated \$2,500,000.

Insurance Coverage

The State maintains certain insurance coverage to satisfy bond indenture agreements as well as for other purposes, but is substantially self-insured for all other perils including workers' compensation. The State records a liability for risk financing and insurance related losses, including incurred but not reported, if it is determined that a loss has been incurred and the amount can be reasonably estimated. The State retains various risks and insures certain excess layers with commercial insurance companies. At June 30, 2012, the State recorded estimated losses for workers' compensation, automobile, and general liability claims as long-term liabilities as the losses will not be liquidated with currently expendable available financial resources. The estimated losses will be paid from legislative appropriations of the State's General Fund. The Department's portion of the State's workers' compensation expense for the year ended June 30, 2012 was approximately \$256,000.

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Litigation

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

Ceded Lands

The Office of Hawaiian Affairs ("OHA") and the State are involved in litigation regarding the State's alleged failure to properly account for and pay to OHA monies due to OHA under the provisions of the Hawaii State Constitution and Chapter 10 of the Hawaii Revised Statutes for use by the State of certain ceded lands. The ultimate outcome of this matter is still unknown. Full discussion of this matter and other legal matters between OHA and the State are disclosed in the State's CAFR.

**Schedule of
Expenditures of Federal Awards**

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Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012

Federal Grantor/Pass-Through Grantor/Program Title	Project Number	CFDA Contract, Award or Assistance ID Number	Federal Expenditures	Amount Provided to Subrecipient
U.S. Department of Health and Human Services				
Direct Programs				
TB Epidemiological Studies Consortium	626	200-2011-41277	\$ 700	\$ -
Special Programs for Aging – Title VII Chapter 3	468	93.041	98,222	-
Special Programs for Aging – Title VII Chapter 2	401, 468	93.042	2,528	-
Special Programs for Aging – Title III Part D	401	93.043	78,497	78,497
Special Programs for Aging – Title III Part B – Grants for Supportive Services and Senior Centers	401	93.044	1,935,615	1,935,615
Special Programs for Aging – Title III Part C – Nutrition Services	401	93.045	2,742,697	2,341,245
Nutrition Services Incentive Program	406	93.053	363,728	363,728
Subtotal Aging Cluster			5,042,040 *	4,640,588
Special Programs for Aging – Title IV and Title II – Discretionary Projects	various	93.048	894,543	515,077
National Family Caregiver Support, Title III, Part E	401	93.052	620,292	620,292
Public Health Emergency Preparedness	various	93.069	5,223,549 *	-
Environmental Public Health and Emergency Response	444, 606	93.070	583,109	-
Medicare Enrollment Assistance Program	620	93.071	5,652	5,652
Hawaii's Lifespan Respite Care Program	627	93.072	4,093	-
Emergency System for Advance Registration of Volunteer Health Professionals	588	93.089	219,136	-
Personal Responsibility Education Program Grant	613	93.092	14,028	-
Food and Drug Administration Research	580	93.448	224,676	-
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances	229, 589, 632	93.104	2,252,647	-
Maternal and Child Health Federal Consolidated Programs	various	93.110	719,824	457,210
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	247	93.116	797,021	-
Emergency Medical Services for Children	388	93.127	50,830	-
Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	298	93.130	136,114	720
Injury Prevention and Control Research and State and Community Based Programs	343, 278	93.136	262,431	75,844
Projects for Assistance in Transition from Homelessness	various	93.150	320,085	291,711
Hansen's Disease National Ambulatory Care Program	264	93.215	861,787	-
Family Planning – Services	239	93.217	2,484,274	2,019,068
Abstinence Education Program	273	93.235	5,271	-
State Rural Hospital Flexibility Program	415	93.241	494,810	-
Substance Abuse and Mental Health Services – Projects of Regional and National Significance	various	93.243	7,268,033 *	5,201,732
Universal Newborn Hearing Screening	416	93.251	287,138	89,448
State Health Access Program	437	93.256	32,343	-
Immunization Grants	457	93.268	15,674,950	12,917,222
ARRA – Immunization Grants	579	93.712	20,120	-
Subtotal Immunization Cluster			15,695,070 *	12,917,222
Adult Viral Hepatitis Prevention and Control	397	93.270	89,565	-
Substance Abuse and Mental Health Services – Access to Recovery Centers for Disease Control and Prevention – Investigations and Technical Assistance	396	93.275	3,475,326	3,110,326
State Partnership Grant Program to Improve Minority Health	various	93.283	2,916,827 *	51,399
Small Rural Hospital Improvement Grant Program	611	93.296	52,315	-
Affordable Care Act Maternal, Infant, and Early Childhood Home Visiting Program	454	93.301	178,469	18,000
Strengthening Public Health Infrastructure for Improved Health Outcomes	602, 629	93.505	726,243	555,070
ELC PPACA – Building & Strengthening Capacity	285, 615	93.507	978,925	-
Hawaii Immunization Registry Electronic Medical Record Interoperability	607	93.521	455,382	-
Collaborative Chronic Dis. Healthy Promotion & Surveillance Program – Tobacco Supplement	624	93.539	273,040	-
Community-Based Child Abuse Prevention Grants	631	93.544	45,146	-
Development Disabilities Basic Support and Advocacy Grants	270	93.590	1,009,275	741,059
Child Abuse and Neglect Discretionary Activities	240	93.630	350,184	-
ARRA – Preventing Healthcare – Associated Infections	274	93.670	67,309	-
	582	93.717	319,839	-

* Denotes Major Federal Program

State of Hawaii
Department of Health
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012

Federal Grantor/Pass-Through Grantor/Program Title	Project Number	CFDA Contract, Award or Assistance ID Number	Federal Expenditures	Amount Provided to Subrecipient
Recovery Act Ambulatory Surgical Center – Healthcare Associated Infection Initiative	592	93.720	17,262	-
State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	various	93.777	1,670,880	3,050
Subtotal Medicare Cluster			1,688,142	3,050
ARRA – Prevention and Wellness – State, Territories and Pacific Islands	594	93.723	549,835	-
ARRA – Prevention and Wellness – Communities Putting Prevention to Work Funding Opportunities Announcement	595	93.724	2,021,614	-
ARRA – Communities Putting Prevention to Work: Chronic Disease Self-Management Program	596	93.725	130,269	128,548
Centers for Medicare and Medicaid Services Research, Demonstrations and Evaluations	403, 590, 617	93.779	595,515	312,121
National Bioterrorism Hospital Preparedness Program	435	93.889	1,950,390 *	-
Grants to States for Operation of Offices of Rural Health	299	93.913	169,582	-
HIV Care Formula Grants	293, 603, 608	93.917	3,969,665	-
Cooperative Agreements for State-Based Comprehensive Breast and Cervical Early Detection Programs	448	93.919	1,340,938	-
Healthy Start Initiative	286	93.926	867,928	646,440
HIV Prevention Activities – Health Department Based	266	93.940	1,669,459	-
HIV / AIDS Surveillance	272	93.944	260,437	-
Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	319	93.946	156,909	-
Block Grants for Community Mental Health Services	various	93.958	1,605,250	786,518
Substance Abuse Prevention and Treatment Block Grants	various	93.959	8,193,651	7,805,887
Preventive Health Services – Sexually Transmitted Diseases Control Grants	268	93.977	392,504	-
Preventive Health and Health Services Block Grant	various	93.991	612,813	-
Maternal and Child Health Services Block Grant	various	93.994	2,289,600	22,701
Subtotal Direct Programs			84,081,089	41,094,180
Pass-through from the State Department of Human Services				
Child Abuse and Neglect State Grants	various	93.669	74,000	-
Subtotal Pass-through Programs			74,000	-
Total Department of Health and Human Services			84,155,089	41,094,180
U.S. Department of Agriculture				
Direct Program				
Wildlife Services	392	10.028	5,953	-
Food Safety Cooperative Agreements	203, 580	10.479	146,155	-
Special Supplemental Nutrition Program for Women, Infants, and Children	275, 295	10.557	34,076,778 *	2,921,033
WIC Grants to States	587	10.578	74,631	74,631
Subtotal Direct Programs			34,303,517	2,995,664
Pass-through from the State Department of Human Services				
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	various	10.561	357,193	-
Subtotal Pass-through Programs			357,193	-
Total Department of Agriculture			34,660,710	2,995,664
Environmental Protection Agency				
Direct Program				
Air Pollution Control Program Support	233	66.001	674,612	-
Surveys, Studies, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	294	66.034	97,661	-
State Clean Diesel Grant Program	328	66.040	43,239	3,700
ARRA – State Clean Diesel Grant Program	484	66.040	563,065	-
Subtotal State Clean Diesel Grant Program			606,304	3,700
Water Pollution Control State, Interstate, and Tribal Program Support	231, 237, 601	66.419	2,094,313	201,713
State Public Water System Supervision	232	66.432	484,313	-
Water Quality Management Program	14284-16284	66.454	67,807	28,486
ARRA – Water Quality Management Program	485	66.454	79,456	79,454
Subtotal Water Quality Management Program			147,263	107,940

* Denotes Major Federal Program

State of Hawaii
Department of Health
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012

Federal Grantor/Pass-Through Grantor/Program Title	Project Number	CFDA Contract, Award or Assistance ID Number	Federal Expenditures	Amount Provided to Subrecipient
Capitalization Grants for Clean Water State Revolving Funds	various	66.458	17,546,590	17,546,285
ARRA – Capitalization Grants for Clean Water State Revolving Funds	483	66.458	7,239,628	7,239,628
Subtotal Capitalization Grants for Clean Water State Revolving Funds			24,786,218 *	24,785,913
Nonpoint Source Implementation Grants	various	66.460	1,097,789	42,485
Capitalization Grants for Drinking Water State Revolving Funds	various	66.468	4,755,322	1,980,429
ARRA – Capitalization Grants for Drinking Water State Revolving Funds	482	66.468	789,257	789,257
Subtotal Capitalization Grants for Drinking Water State Revolving Funds			5,544,579 *	2,769,686
Beach Monitoring and Notification Program	8291	66.472	397,026	-
Water Protection Coordination	449	66.474	174,798	-
Environmental Information Exchange Grant Program	various	66.608	199,214	-
Toxic Substances Compliance Monitoring Cooperative Agreements	243	66.701	148,946	-
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	330	66.707	166,921	-
Hazardous Waste Management State Program Support	230	66.801	513,837	-
Superfund State Site Specific Cooperative Agreements	394	66.802	272,047	-
State Underground Storage Tanks Program	339	66.804	275,462	-
Leaking Underground Storage Tank Trust Fund Corrective Action Program	258	66.805	1,054,253	-
State and Tribal Response Program Grants	360	66.817	1,357,901	-
Total Environmental Protection Agency			40,093,457	27,911,437
U.S. Department of Education				
Direct Program				
Special Education – Grants for Infants and Families	213	84.181	2,109,444	576,844
ARRA – Early Intervention Services	488	84.393	247,110	139,978
Early Intervention Services Cluster			2,356,554 *	716,822
Total Department of Education			2,356,554	716,822
U.S. Department of Defense				
Direct Program				
State Memorandum of Agreement Program for the Reimbursement of Technical Services	245	12.113	202,230	-
Total Department of Defense			202,230	-
U.S. Department of Justice				
Direct Program				
Enforcing Underage Drinking Laws Program	458	16.727	405,234	403,381
Pass-through from the State Department of the Attorney General				
Evidence-Based Forensic Student Internship	609	16.803	147,000	-
Total Department of Justice			552,234	403,381
U.S. Department of Transportation				
Pass-through from the State Department of Transportation				
State and Community Highway Safety	various	20.600	28,980	-
Total Department of Homeland Security			28,980	-
Total Expenditures of Federal Awards			\$ 162,049,254	\$ 73,121,484

* Denotes Major Federal Program

State of Hawaii
Department of Health
Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012

1. Basis of Presentation

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

2. Loans Outstanding

The Department had the following loan balances outstanding at June 30, 2012. Loans made during the year are included in the federal expenditures presented in the schedule of expenditures of federal awards.

Program Title	Federal CFDA Number	Amount Outstanding
Capitalization Grants for Clean Water State Revolving Funds	66.458	\$ 37,753,416
Capitalization Grants for Drinking Water State Revolving Funds	66.468	20,120,046

3. Noncash Awards

The Department also receives noncash awards for the Immunization Cluster. The Department expended approximately \$12,917,000 in vaccines for the Immunization Cluster for the fiscal year ended June 30, 2012.

PART II

Government Auditing Standards

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

The Auditor
State of Hawaii

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of Hawaii, Department of Health (the "Department") as of and for the year ended June 30, 2012, which collectively comprise the Department's basic financial statements and have issued our report thereon dated August 22, 2013. 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.

Internal Control Over Financial Reporting

Management of the Department is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Department's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we considered to be material weaknesses as previously defined. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies in internal control over financial reporting as Finding Nos. 12-01 through 12-02. 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.

Compliance and Other Matters

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

We noted certain matters that we will report to the Auditor and management of the Department in a separate letter dated March 22, 2013.

The Department's responses to the findings identified in our audit are described in the Department's Corrective Action Plan. We did not audit the Department's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Auditor, the Department's management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Accuity LLP

Honolulu, Hawaii
August 22, 2013

PART III
OMB Circular A-133

**Report of Independent Auditors on Compliance with Requirements
That Could Have a Direct and Material Effect on Each Major Program
and on Internal Control Over Compliance in Accordance with OMB Circular A-133**

The Auditor
State of Hawaii

Compliance

We have audited the State of Hawaii, Department of Health's (the "Department") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Department's major federal programs for the year ended June 30, 2012. The Department's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Department's management. Our responsibility is to express an opinion on the Department's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Department's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Department's compliance with those requirements.

As described in Finding No. 12-06 in the accompanying schedule of findings and questioned costs, the Department did not comply with requirements regarding cash management that are applicable to the Aging Cluster, Public Health Emergency Preparedness, Substance Abuse and Mental Health Services – Projects of Regional and National Significance, Immunization Cluster, National Bioterrorism and Hospital Preparedness Program, Centers for Disease Control and Prevention – Investigations and Technical Assistance, and Early Intervention Services Cluster programs. Compliance with such requirements is necessary, in our opinion, for the Department to comply with the requirements applicable to those programs noted above.

In our opinion, except for the noncompliance described in the previous paragraph, the Department complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

The results of our auditing procedures disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Finding Nos. 12-03 through 12-05.

Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding No. 12-06 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding No. 12-03 to be a significant deficiency.

The Department's responses to the findings identified in our audit are described in the Department's Corrective Action Plan. We did not audit the Department's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Auditor, the Department's management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Accuity LLP

Honolulu, Hawaii
August 22, 2013

PART IV

Schedule of Findings and Questioned Costs

State of Hawaii
Department of Health
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued	Unqualified
Internal control over financial reporting	
Material weakness identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs	
Material weakness identified?	Yes
Significant deficiency identified that are not considered to be material weaknesses?	Yes
Type of auditors’ report issued on compliance for major programs	Qualified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	Yes

Identification of major programs

CFDA	
Number	Name of Federal Program or Cluster
	U.S. Department of Health & Human Services
	Aging Cluster
93.044	Special Programs for Aging – Title III Part B – Grants for Supportive Services and Senior Centers
93.045	Special Programs for Aging – Title III Part C – Nutrition Services
93.053	Nutrition Services Incentive Program
93.069	Public Health Emergency Preparedness
93.243	Substance Abuse and Mental Health Services – Projects of Regional and National Significance
	Immunization Cluster
93.268	Immunization Grants
93.712	ARRA – Immunization Grants
93.283	Centers for Disease Control and Prevention – Investigations and Technical Assistance
93.889	National Bioterrorism Hospital Preparedness Program
	U.S. Department of Agriculture
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children

State of Hawaii
Department of Health
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

Identification of major programs (continued)

CFDA Number	Name of Federal Program or Cluster	
	U.S. Environmental Protection Agency	
66.458	Capitalization Grants for Clean Water State Revolving Funds	
66.458	ARRA – Capitalization Grants for Clean Water State Revolving Funds	
66.468	Capitalization Grants for Drinking Water State Revolving Funds	
66.468	ARRA – Capitalization Grants for Drinking Water State Revolving Funds	
	U.S. Department of Education	
	Early Intervention Services Cluster	
84.181	Special Education – Grants for Infants and Families	
84.393	ARRA – Early Intervention Services	
Dollar threshold used to distinguish between type A and type B programs		\$3,000,000
Auditee qualified as low-risk auditee?		No

State of Hawaii
Department of Health
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

Section II – Financial Statement Findings

		Questioned Cost
Finding No. 12-01:	Department of Human Services Transactions (Significant Deficiency)	\$ _____
Federal Agency:	Finding is not specific to a Federal Agency.	
CFDA Number and Title:	Finding is not specific to a Federal Agency.	
Award Number and Award Year:	Not applicable	Not applicable

Finding and Cause and Effect

The Department's Adult Mental Health Division continues to work with the State of Hawaii, Department of Human Services ("DHS") to accurately and timely determine the settlement of Medicaid-related transactions for financial reporting purposes, which could lead to a material misstatement in the Department's financial statements. However, we noted instances in which DHS's reconciliations were not completed in a timely manner during fiscal year 2012.

Criteria

In accordance with GASB 34, paragraph 12e, the Department is required to:

"Measure and report all assets (both financial and capital), liabilities, revenues, expenses, gains, and losses using the economic resources measurement focus and accrual basis of accounting."

In order to report on the accrual basis of accounting, the Department needs to assess all amounts due to and from other State Agencies for services that were provided throughout the year.

In addition, the Department's management makes the following representation to us before we complete our audit of the financial statements:

"We understand that as part of your audit, you prepared the adjusting journal entries necessary to convert our cash basis records to the accrual basis of accounting and acknowledge that we have reviewed and approved those entries and accepted responsibility for them."

Recommendation

The Department should continue to work with DHS to ensure that DHS completes reconciliations of Medicaid payments and communicates over and underpayments in a timely manner.

State of Hawaii
Department of Health
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

		Questioned Cost
Finding No. 12-02:	Deposit Beverage Container Deposit Special Fund (Significant Deficiency)	\$ <u> — </u>
Federal Agency:	Finding is not specific to a Federal Agency.	
CFDA Number and Title:	Finding is not specific to a Federal Agency.	
Award Number and Award Year:	Not applicable	Not applicable

Finding and Cause and Effect

The Deposit Beverage Container Program (the "Program") receives beverage container deposits and container fees from distributors and refunds deposits and pays handling fees to redemption centers based on certified information. The Program relies on certifications from distributors to support deposits and container fees received. The Program also relies on certifications from redemption centers to support deposit refunds and handling fees paid. Overreliance on the self-reporting by distributors and redemption centers may result in underpayments on deposits and the related container fees received by the Department to administer the program, overpayments of deposit refunds and handling fees to redemption centers, and an overstated redemption rate. An overstated redemption rate affects the amount of revenue the Department recognizes for unredeemed deposits in the Deposit Beverage Container Deposit Special Fund (the "Fund"), which could result in a material misstatement in the Fund and Department's financial statements, as well as higher container fees for consumers to support the program.

Due to the volume of distribution and redemption transactions and insufficient staff and positions, it is impractical for the Program to verify all of the deposits received and refunds disbursed. Management noted the situation was exacerbated by staff turnover and open positions. However, the Program could mitigate the risk of fraud (underpayments by distributors and overpayments to redemption centers) by implementing a systematic process for monitoring the activities of and reports submitted by distributors and redemption centers.

Management estimated that 76 percent of eligible deposit containers distributed in fiscal year 2012 will be redeemed (the redemption rate), which is consistent with the actual redemption rates in fiscal years 2010 and 2011. Therefore, 24 percent of the deposits collected during fiscal year 2012 were recognized into revenue in fiscal year 2012. Prior to fiscal year 2012, the estimated redemption rate was 80 percent and 20 percent of the deposits collected were recognized as revenue. We noted that while management evaluated the estimated redemption rate for deposits collected during fiscal year 2012, management did not have a policy in place to retrospectively evaluate historical actual redemption rates against the 80 percent estimated redemption rate used prior to fiscal year 2012 and the impact of any variances on the deposit container liability as of June 30, 2012. Prior to fiscal year 2012, the actual redemption rates calculated by the Program ranged between 41 percent and 79 percent and averaged 71 percent. As redemption operations under the program only began in the second half of fiscal year 2005, management elected to be conservative to avoid overstating revenues and understating liabilities. However, as the redemption rates for fiscal years 2010 through 2012 appear to have stabilized at approximately 76 percent, we recommended that management perform a retrospective analysis of estimates recorded against actual redemption rates. After performing the analysis, management determined it was appropriate to reduce the deposit container liability as of June 30, 2012 by approximately \$19.5 million and recognize additional revenue related to deposits collected in prior fiscal years.

State of Hawaii
Department of Health
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

Criteria

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

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

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

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

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

Recommendation

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

We also recommended and the Department has established a policy to perform retrospective reviews of significant estimates such as the historical redemption rate of beverage container deposits to ensure that previously recorded estimates were appropriate.

State of Hawaii
Department of Health
Aging Cluster
Capitalization Grants for Drinking Water State Revolving Funds
Special Supplemental Nutrition Program for Women, Infants, and Children
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

Section III – Federal Award Findings and Questioned Costs

		Questioned Cost
Finding No. 12-03:	Reporting (Significant Deficiency)	\$ _____
Federal Agency:	Department of Health and Human Services ("DHHS") Environmental Protection Agency Department of Agriculture	
CFDA Number and Title:	Aging Cluster 93.044 – Special Programs for Aging – Title III Part B – Grants for Supportive Services and Senior Centers 93.045 – Special Programs for Aging – Title III Part C – Nutrition Services Incentive Program 93.053 – Nutrition Services Incentive Program 66.468 – Capitalization Grants for Drinking Water State Revolving Funds ("DWSRF") 10.557 – Special Supplemental Nutrition Program for Women, Infants, and Children ("WIC")	
Award Number and Award Year:	12AAHIT3SP 10/01/11 – 09/30/12 11AAHIT3SP 10/01/10 – 09/30/11 12AAHINSIP 10/01/11 – 09/30/12 11AAHINSIP 10/01/10 – 09/30/11 FS-99986512-0 09/30/11 – 06/30/18 FS-99986511-0 04/01/11 – 06/30/17 7HI700HI7 10/01/11 – 09/30/12 7HI700HI7 10/01/10 – 09/30/11	

Finding and Cause and Effect

During our testing of the reporting compliance requirement, we noted that the Department implemented policies and procedures to address the Federal Funding Accountability and Transparency Act ("FFATA") reporting requirements for its federally funded programs subject to such requirements.

**State of Hawaii
Department of Health
Aging Cluster
Capitalization Grants for Drinking Water State Revolving Funds
Special Supplemental Nutrition Program for Women, Infants, and Children
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012**

However, we noted the following matters that resulted in noncompliance with federal requirements:

- FFATA reports were not submitted for the Aging Cluster and WIC program during the state fiscal year 2012.
- The DWSRF program did not implement policies and procedures to maintain adequate supporting documentation of the submission of the required FFATA reporting for applicable subrecipient awards.
- The WIC program was unable to adopt a unified DUNS number to prepare the FFATA report.

The FFATA report was subsequently submitted in September 2012 and August 2012 for the Aging Cluster and the WIC program, respectively.

Noncompliance with FFATA reporting requirements reduces transparency of federal awards and could result in sanctions by federal agencies including increased oversight and/or reduction or elimination of federal awards.

Criteria

In accordance with 2 CFR Part 170, the Department's programs are required to report executive compensation and first-tier subcontract awards on contracts and orders expected to be \$25,000 or more made with a new Federal Assistance Identification Number effective October 1, 2010 through the Federal Funding Accountability and Transparency Subaward Reporting System.

Recommendation

We recommend that the Department adhere to its policies and procedures in order to comply with federal regulations and submit any required FFATA reports for its programs.

**State of Hawaii
Department of Health
National Bioterrorism Hospital Preparedness Program
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012**

		Questioned Cost
Finding No. 12-04:	Subrecipient Monitoring	\$ _____ -
Federal Agency:	DHHS	
CFDA Number and Title:	93.889 – National Bioterrorism Hospital Preparedness Program (“HPP”)	
Award Number and Award Year:	5 U3REP090225-03 07/01/11 – 06/30/12 6 U3REP090225-03 07/01/11 – 06/30/12	

Finding and Cause and Effect

During our testing of the subrecipient monitoring compliance requirement for the HPP program, we noted that, although the program performed other subrecipient monitoring procedures, it did not perform monitoring of its subrecipients’ OMB Circular A-133 audits due to the transition of program personnel in fiscal year 2012.

Noncompliance with the subrecipient monitoring requirement could result in the Department not being aware of noncompliance with federal award requirements by its subrecipients. This could result in sanctions by DHHS such as increased oversight and/or reduction of future federal awards.

Criteria

In accordance with OMB Circular A-133 Section 400(d), we noted that the pass-through entity must ensure that subrecipients expending \$500,000 or more in Federal awards during the subrecipient’s fiscal year have met the audit requirements for that fiscal year.

Recommendation

We recommend that the program adhere to the policies and procedures to properly monitor that subrecipients obtain audits in accordance with OMB Circular A-133, as applicable; review the audit reports; and issue management decisions on any findings applicable to the program.

State of Hawaii
Department of Health
National Bioterrorism Hospital Preparedness Program
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

		Questioned Cost
Finding No. 12-05:	Suspension and Debarment Check	\$ <u> -</u>
Federal Agency:	DHHS	
CFDA Number and Title:	93.889 – HPP	
Award Number and	5 U3REP090225-03	07/01/11 – 06/30/12
Award Year:	6 U3REP090225-03	07/01/11 – 06/30/12

Finding and Cause and Effect

During our testing of procurement and suspension and debarment procedures for the HPP program, we noted procedures were in place to ensure the program does not execute contracts that are equal to or exceed \$25,000 with federally suspended or debarred parties. However, proper documentation was not maintained due to the transition and the unavailability of the former public health administrative officer.

Noncompliance with federal requirements could result in the Department being required to reimburse the awarding agency for payments to federally suspended or debarred parties, increased oversight, and/or reduction in federal awards.

Criteria

In accordance with 2 CFR section 180.300, the program is required to verify that the entity is not suspended or debarred or otherwise excluded when entering into a covered transaction by checking the *Excluded Parties List System* (“EPLS”) maintained by the General Services Administration (“GSA”), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity.

Recommendation

We recommend that the program designate individuals to ensure proper documentation is maintained to evidence the review.

State of Hawaii
Department of Health
Administrative Services Office
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

		Questioned Cost
Finding No. 12-06:	Cash Management (Material Weakness)	\$ <u> </u> –
Federal Agency:	DHHS Department of Education	
CFDA Number and Title:	Aging Cluster 93.044 – Special Programs for Aging – Title III Part B – Grants for Supportive Services and Senior Centers 93.045 – Special Programs for Aging – Title III Part C – Nutrition Services Incentive Program 93.053 – Nutrition Services Incentive Program 93.069 – Public Health Emergency Preparedness 93.243 – Substance Abuse and Mental Health Services – Projects of Regional and National Significance Immunization Cluster 93.268 – Immunization Grants 93.712 – ARRA – Immunization Grants 93.283 – Centers for Disease Control and Prevention – Investigations and Technical Assistance 93.889 – HPP Early Intervention Services Cluster 84.181 – Special Education – Grants for Infants and Families 84.393 – ARRA – Early Intervention Services	

State of Hawaii
Department of Health
Administrative Services Office
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

Award Number and	12AAHIT3SP	10/01/11 – 09/30/12
Award Year:	11AAHIT3SP	10/01/10 – 09/30/11
	12AAHINSIP	10/01/11 – 09/30/12
	11AAHINSIP	10/01/10 – 09/30/11
	1H75TP000330-01	07/31/09 – 07/30/11
	3U90TP916969-10W1	08/10/09 – 08/09/11
	2U90TP916969-11	08/10/11 – 08/09/13
	5U79SP013944-05	09/30/10 – 09/29/12
	5U79SM057457-05	09/30/10 – 09/29/12
	5H23IP922518	01/01/11 – 12/31/12
	3H23IP922518-07S1	09/01/09 – 12/31/11
	5U58DP0011962	03/29/09 – 03/28/14
	5 U3REP090225-03	07/01/11 – 06/30/12
	6 U3REP090225-03	07/01/11 – 06/30/12
	H181A110091	07/01/11 – 09/30/12
	H393A090091A	02/17/09 – 09/30/11

Finding and Cause and Effect

During our testing of the Department's cash management procedures, we could not verify whether the State of Hawaii, Department of Accounting and General Services ("DAGS") disbursed funds from federal sources within three business days (for the Immunization Cluster, which is subject to the State of Hawaii's Treasury-State Agreement) or as close as administratively feasible to the Department's disbursements (for the other federal award programs identified above) after the Department drew down the funds, in accordance with the Cash Management Improvement Act ("CMIA") Regulations & Guidance 31 CFR 205. The delays were caused by the State's deposit and payment process that requires all State departments to process deposits through the Department of Budget and Finance ("B&F") and payments through DAGS resulting in processing delays.

The Department draws down federal funds that it estimates will be needed based on the vouchers processed daily. However, since deposits must be posted prior to the processing of payments or disbursing of the funds, it is difficult for the Department to disburse federal funds in accordance with CMIA requirements.

Noncompliance with federal regulations could result in a loss of funding that may jeopardize the operations of the Department's federally funded programs. In addition, those programs ordinarily subject to 31 CFR 205, Subpart B may be required to follow the more restrictive requirements of 31 CFR 205, Subpart A.

State of Hawaii
Department of Health
Administrative Services Office
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

Criteria

The CMIA Regulations & Guidance 31 CFR 205, Subpart A for programs covered under the State of Hawaii's Treasury-State Agreement ("Treasury-State Agreement"), which includes the Immunization Cluster, states:

"Cash advance (pre-issuance or post-issuance) funding means that a Federal Program Agency transfers the actual amount of Federal funds to a State that will be paid out by the State, in a lump sum, not more than three business days prior to the day the State issues checks or initiates EFT payments. . . State interest liability accrues from the day Federal funds are credited to a State account to the day the State pays out the Federal funds for Federal assistance program purposes."

B&F is responsible for calculating any interest liability under the Treasury-State Agreement.

The other federal award programs noted above are not subject to the Treasury-State Agreement and, as such, are subject to 31 CFR 205, Subpart B, which states:

"The timing and amount of funds transfers must be as close as is administratively feasible to a State's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs. States should exercise sound cash management in funds transfers to subgrantees in accordance with OMB Circular A-102 . . ."

Recommendation

We recommend that the Department work with DAGS and B&F to ensure timely disbursement of federal funds and reimbursement of any interest liability owed to the federal government for any programs subject to 31 CFR 205, Subpart A.

PART V

Prior Year Findings And Questioned Costs

This section updates the status of findings and questioned costs that were reported in prior years. Finding numbers relate to the sequence reported in the respective year.

State of Hawaii
Department of Health
Status of Prior Year Findings and Questioned Costs
Year Ended June 30, 2012

Finding No.	Description	Classification	Status		Current Year Finding No.
			Resolved	Unresolved	
11-01	Department of Human Services Transactions	Material Weakness		X	12-01
11-02	Compensated Absences	Significant Deficiency	X		
11-03	Equipment Management	Significant Deficiency	X		
11-04	Reporting	Significant Deficiency		X	12-03
11-05	Eligibility		X		
11-06	Reporting		X		
11-07	Matching and Earmarking		X		
11-08	Certification for Federally Funded Employees		X		
11-09	Matching		X		
06-08	Cash Management	Material Weakness		X	12-06

Partial corrective actions taken to address Finding 11-01 are as follows:

The AMHD Resource Management and Development Office implemented a process that involves interfacing with AMHD's Management Information Systems staff for an improved and more accurate Medicaid Rehabilitation Option claims administration process to ensure that claims are paid appropriately according to Center for Medicare and Medicaid Service guidelines, and that unpaid claims will be researched and reprocessed in an efficient and timely manner.

Partial corrective action was taken to address Finding 11-04. The Department implemented policies and procedures for programs to follow in performing required FFATA reporting.

As we have reported current year findings, Finding Nos. 11-01 and 11-04 will not be carried forward.

No corrective actions were taken related to Finding No. 06-08. However, as we have reported a current year finding, Finding No. 06-08 will not be carried forward.

Corrective Action Plan

NEIL ABERCROMBIE
GOVERNOR OF HAWAII



STATE OF HAWAII
DEPARTMENT OF HEALTH
P. O. BOX 3378

LORETTA J. FUDDY, A.C.S.W., M.P.H.
DIRECTOR OF HEALTH

In reply, please refer to:
File:

ASO-F/14-066

August 22, 2013

Office of the Auditor
465 South King Street, Suite 500
Honolulu, Hawaii 96813

Dear State Auditor:

Attached is the Department of Health's Corrective Action Plan for the findings on the audit report for fiscal year 2012.

We appreciate the opportunity to comment on the audit report.

Sincerely,

A handwritten signature in black ink, appearing to read "Loretta J. Fuddy", is written over a circular stamp that partially overlaps the signature.

Loretta J. Fuddy, A.C.S.W., M.P.H.
Director of Health

Attachment

II. Financial Statement Findings

Finding No. 12-01: Department of Human Services Transactions (Significant Deficiency)

Finding and Cause and Effect

The Department's Adult Mental Health Division (AMHD) continues to work with the State of Hawaii, Department of Human Services ("DHS") to accurately and timely determine the settlement of Medicaid related transactions for financial reporting purposes, which could lead to a material misstatement in the Department's financial statements. However, we noted instances in which the DHS's reconciliations were not completed in a timely manner during fiscal year 2012.

Corrective Action Plan

AMHD will continue to work with DHS to reconcile payments and receipts in a timely manner. AMHD has assigned an Accountant to be responsible for verifying and communicating with DHS to ensure reconciliations are completed on a weekly basis.

Person Responsible

AMHD Chief and Public Health Administrator Officer VI

Anticipated Date of Completion

February 28, 2013

Finding No. 12-02: Reliance on Third Party Certifications

Finding and Cause and Effect

The Deposit Beverage Container Program (the "Program") receives beverage container deposits and container fees from distributors and refunds deposits and pays handling fees to redemption centers based on certified information. The Program relies on certifications from distributors to support deposits and container fees received. The Program also relies on certifications from redemption centers to support deposit refunds and handling fees paid. Overreliance on the self-reporting by distributors and redemption centers may result in underpayments on deposits and the related container fees received by the Department to administer the program, overpayments of deposit refunds and handling fees to redemption centers, and an overstated redemption rate.

The Program management did not have a policy in place to retrospectively evaluate historical actual redemption rates against the 80 percent estimated redemption rate used prior to fiscal year 2012 and the impact of any variances on the deposit container liability as of June 30, 2012.

Corrective Action Plan

The Deposit Beverage Container (DBC) Program in the Office of Solid Waste Management (OSWM) has not been able to audit reports and deposits received from distributors and reconcile claims from recycling companies due mainly to numerous vacancies within the program. Of the ten permanent positions authorized for the DBC, four are currently vacant. The program will vacate a vacant Environmental Health Specialist III position to an Accountant III position in order to address the need for an additional Accountant. This additional Accountant will assist the Accountant IV in processing payments to over 100 certified redemption centers on a monthly basis and will assist in monitoring the distributors and redemption centers and auditing reports submitted by them to verify deposits received and refunds disbursed. Further, the OSWM will begin a review of its organizational structure and staffing resources to determine whether any further changes are necessary to assist the DBC Program in addressing the Program's need to monitor and audit the distributors and redemption centers on a regular basis.

The Department has established a policy to perform retrospective reviews of significant estimates such as the historical redemption rate of beverage container deposits to ensure that previously recorded estimates were appropriate.

Person Responsible

Office of Solid Waste Management Coordinator

Anticipated Date of Completion

September 30, 2013

Section III. Federal Award Findings and Questioned Costs

Finding No. 12-03: Reporting (Significant Deficiency)

Finding and Cause and Effect

During our testing of the reporting compliance requirement, we noted that the Department implemented policies and procedures to address the Federal Funding Accountability and Transparency Act ("FFATA") reporting requirements for its federally funded programs subject to such requirements.

However, we noted the following matters that resulted in noncompliance with federal requirements:

- FFATA reports were not submitted for the Aging Cluster and WIC program during the state fiscal year 2012.
- The DWSRF program did not implement policies and procedures to maintain adequate supporting documentation of the submission of the required FFATA reporting for applicable subrecipient awards.
- The WIC program was unable to adopt a unified DUNS number to prepare the FFATA report.

The FFATA report was subsequently submitted in September 2012 and August 2012 for the Aging Cluster and the WIC program, respectively.

Corrective Action Plan

The Chief of the Office of Planning, Policy, and Program Development (OPPPD) will continue to work with all affected programs to ensure compliance with the federal FFATA reporting requirements.

Person Responsible:

OPPPD Chief

Anticipated Date of Completion

March 31, 2013

Finding No. 12-04: Subrecipient Monitoring

Finding and Cause and Effect

During our testing of the subrecipient monitoring compliance requirement for the Hospital Preparedness Program (HPP) program, we noted that, although the program performed other subrecipient monitoring procedures, it did not perform monitoring of its subrecipients' OMB Circular A-133 audits due to the transition of program personnel in fiscal year 2012.

Corrective Action Plan

The HPP in the Bioterrorism Preparedness and Response (BT) Branch will continue to strive to adhere to subrecipient monitoring compliance requirements, including performing subrecipient monitoring on the subrecipients' OMB Circular A-133 audits. The BT Branch will remind subrecipients of the OMB Circular A-133 audit requirement at the end of the subrecipient's fiscal year that OMB-133 audits must be completed within 9 months after the end of the subrecipient's fiscal year. The Branch will send a second reminder to the subrecipient on the 8th month after the end of the subrecipient's fiscal year and issue monthly follow-up reminders thereafter until the subrecipient completes the audit and submits the audit report. The BT Branch will issue a management decision on audit findings within 6 months after receipt of the subrecipient's audit report and ensure that the subrecipient takes timely and appropriate corrective actions on all audit findings.

Person Responsible

BTP Accountant

Anticipated Date of Completion

February 28, 2013

Finding No. 12-05: Suspension and Debarment Check

Finding and Cause and Effect

During our testing of procurement and suspension and debarment procedures for the HPP program, we noted procedures were in place to ensure the program does not execute contracts that are equal to or exceed \$25,000 with federally suspended or debarred parties. However, proper documentation was not maintained due to the transition and the unavailability of the former public health administrative officer.

Corrective Action Plan

The HPP will continue to strive to adhere to suspension and debarment procedures when awarding contracts that are equal to or exceed \$25,000 with federally suspended or debarred parties and ensure that proper documentation is maintained in the procurement file as evidence that the required review was completed. The program has designated this responsibility to the BTP Accountant.

Person Responsible

BTP Accountant

Anticipated Date of Completion

February 28, 2013

Finding No. 12-06: Cash Management (Material Weakness)

Finding and Cause and Effect

During our testing of the Department's cash management procedures, we could not verify whether the State of Hawaii, Department of Accounting and General Services (DAGS) disbursed funds from federal source within three business days (for the Immunization Cluster; which is subject to the State of Hawaii's Treasury-State Agreement) or as close as administratively feasible to the Department's disbursements (for the other federal award programs identified) after the Department drew down the funds, in accordance with the Cash

Management Improvement Act ("CMIA") Regulations & Guidance 31 CFR 205. The delays were caused by the State's deposit and payment process that requires all State departments to process deposits through the Department of Budget and Finance (B&F) and payments through DAGS resulting in processing delays.

Corrective Action Plan

The Department of Health is a part of the Executive Branch of the State of Hawaii. As such, the Department must follow the accounting guidelines and procedures provided by DAGS. DAGS requires that all cash receipts and disbursements must be recorded in the State's Financial Accounting Management and Information System (FAMIS).

The Department of Health is one of the largest agencies in the Hawaii State Executive Branch. We have more than 150 federal grants with multiple grant years. Each program is responsible for managing their grant, reviewing invoices, and certifying invoices for payment. Our ASO Audit Unit of the Procurement and Audit Section reviews the submitted invoices and inputs payment data to FAMIS. The ASO Accounting Section prepares the daily cash management requirement spreadsheets based on FAMIS reports and performs daily cash draws as needed. Because we are using the State System, we may not be able to meet the CMIA requirements for the disbursement of federal funds.

Person Responsible

Administrative Services Officer and Fiscal Officer

Anticipated Date of Completion

Not applicable.