ACcuity LLP

CERTIFIED PUBLIC ACCOUNTANTS

State of Hawaii
Department of Health

Financial and Compliance Audit
June 30, 2008

Submitted by
The Auditor
State of Hawaii

Quality *Integrity* *Insight*

State of Hawaii
Department of Health
Index

Page(s)

Part I – Financial Statements

Report of Independent Auditors

Management's Discussion and Analysis (Unaudited) 3–13

Financial Statements

Department-wide – Statement of Net Assets
June 30, 2008 14

Department-wide – Statement of Activities
Year Ended June 30, 2008 15

Governmental Funds – Balance Sheet
June 30, 2008 16

Reconciliation of the Governmental Funds' Fund Balance to the Governmental Activities'
Net Assets June 30, 2008 17

Governmental Funds – Statement of Revenues, Expenditures and Changes in Fund Balance
Year Ended June 30, 2008 18

Reconciliation of the Governmental Funds' Fund Balance to the
Governmental Activities Change in Net Assets
Year Ended June 30, 2008 19

General Fund – Budgetary Comparison Statement
Year Ended June 30, 2008 20

Tobacco Settlement Fund – Budgetary Comparison Statement
Year Ended June 30, 2008 21

Deposit Beverage Container Fund – Budgetary Comparison Statement
Year Ended June 30, 2008 22

Proprietary Funds – Statement of Net Assets
June 30, 2008 23

Proprietary Funds – Statement of Revenues, Expenses and Changes in Fund Net Assets
Year Ended June 30, 2008 24

Proprietary Funds – Statement of Cash Flows
Year Ended June 30, 2008 25–26

Fiduciary Funds – Statement of Fiduciary Net Assets
June 30, 2008 27

Notes to Financial Statements 28–41

State of Hawaii
Department of Health
Index

Page(s)

Schedule of Expenditures of Federal Awards

Schedule of Expenditures of Federal Awards 42–43

Notes to the Schedule of Expenditures of Federal Awards 44

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*

Part III – OMB Circular A-133

Report of Independent Auditors on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

Part IV – Schedule of Findings and Questioned Costs

Section I – Summary of Auditor's Results 49

Section II – Financial Statement Findings 50–55

Section III – Federal Award Findings and Questioned Costs 56–63

Part V – Prior Year Findings and Questioned Costs

Status of Prior Year Findings and Questioned Costs 64–80

Corrective Action Plan

ACcuity LLP
CERTIFIED PUBLIC ACCOUNTANTS

Report of Independent Auditors

The Auditor
State of Hawaii

In our opinion, 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") which collectively comprise the Department's basic financial statements as listed in the index, 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 at June 30, 2008, and the respective changes in 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. 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 of these statements 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and 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 financial position and cash flows, 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, 2008, 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 9 to the basic financial statements, certain errors resulting in understatement of the previously reported governmental activities net assets and governmental funds fund balance as of June 30, 2007, were discovered by management of the Department during fiscal year 2008. Accordingly, the fiscal year 2007 financial statements have been restated and an adjustment has been made to department-wide net assets and governmental funds fund balance as of July 1, 2007 to correct the errors.

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In accordance with *Government Auditing Standards*, we have also issued our report dated May 28, 2009 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.

The accompanying management's discussion on pages 3 through 13 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the 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 basic financial statements. As described in Note 1 to the Schedule of Expenditures of Federal Awards, the accompanying schedule of expenditures of federal awards was prepared on the cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects on the basis of accounting described in Note 1, in relation to the basic financial statements taken as a whole.

Accuity LLP

Honolulu, Hawaii
May 28, 2009

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, 2008. Please read it in conjunction with the Department's Financial Statements including its related notes (which follow this section) as well as the following 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 tobacco settlement agreement, beverage container deposit program 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 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.

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, 2008.

Financial Highlights

- The financial information for fiscal year ("FY") 2007 has been restated to correct the Department's appropriations and receivables reported in the Department's FY 2007 financial statements. The FY 2007 amounts in the MD&A are the restated balances (see Note 9).

- The Department's total net assets increased from $601.1 million (as restated) as of June 30, 2007 to $619.1 million as of June 30, 2008, or by approximately $18.0 million. The total increase in net assets was attributed to an increase in the Department's business type activities' net assets of $26.8 million and offset by a decrease in governmental activities' net assets of $8.8 million during the year.

- The Department's governmental funds reported an aggregate decrease in fund balance of $2.1 million during the year totaling $129.3 million at June 30, 2008. Note that this is based on the adjusted fund balance at July 1, 2007 of $131.4 million.

- The Department's proprietary funds, consisting of two revolving loan funds, reported an increase in net assets of $26.8 million for FY 2008. Total net assets were $433.8 million at June 30, 2008 compared to the FY 2007 year end total of $407.0 million.

Department-Wide Financial Analysis

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

Statement of Net Assets
June 30,
($000)

	Governmental Activities		Business-Type Activities		Total	
	2008	2007 (restated)	2008	2007	2008	2007 (restated)
Current assets	$ 279,749	$ 276,373	$ 208,285	$ 196,486	$ 488,034	$ 472,859
Capital assets	64,173	67,285	365	287	64,538	67,572
Loans receivable, noncurrent	-	-	226,015	210,621	226,015	210,621
Total assets	$ 343,922	$ 343,658	$ 434,665	$ 407,394	$ 778,587	$ 751,052
Current liabilities	$ 142,356	$ 133,084	$ 429	$ 204	$ 142,785	$ 133,288
Long term liabilities	16,295	16,481	377	215	16,672	16,696
Total liabilities	158,651	149,565	806	419	159,457	149,984
Net assets						
Invested in capital assets	64,173	67,285	365	287	64,538	67,572
Restricted	142,516	125,198	433,494	406,688	576,010	531,886
Unrestricted	(21,418)	1,610	-	-	(21,418)	1,610
Total net assets	185,271	194,093	433,859	406,975	619,130	601,068
Total liabilities and net assets	$ 343,922	$ 343,658	$ 434,665	$ 407,394	$ 778,587	$ 751,052

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, 2008, the Department's total net assets were approximately $619.1 million.

At June 30, 2008, in addition to cash in the state treasury approximating $341.6 million, the Department had total loans receivable from county governments in the amount of $247.6 million arising from its two revolving loan funds. The Department had total liabilities of $159.5 million at June 30, 2008 of which $11.2 million relates to accrued wages and employee benefits payable. Approximately $71.7 million in liabilities relate to vouchers and contracts payable. At June 30, 2008, restricted net assets were $576.0 million. The restrictions arise from legal and contractual agreements.

Statement of Activities
June 30,
($000)

	Governmental Activities		Business-Type Activities		Total	
	2008	2007 (restated)	2008	2007	2008	2007 (restated)
Revenue						
Program revenues						
Charges for services	$ 54,055	$ 43,616	$ 6,582	$ 6,008	$ 60,637	$ 49,624
Operating grants and contributions	118,465	118,923	21,407	76,400	139,872	195,323
General revenues						
State appropriated funds	463,574	445,079	-	-	463,574	445,079
Non imposed fringe benefits	48,308	47,303	-	-	48,308	47,303
Tobacco settlement funds	55,713	45,507	-	-	55,713	45,507
Environmental fees and taxes	28,735	25,011	-	-	28,735	25,011
Total revenues	768,850	725,439	27,989	82,408	796,839	807,847
Expenses						
General administration	31,899	34,729	-	-	31,899	34,729
Environmental health	67,325	65,692	3,771	2,468	71,096	68,160
Behavior health	297,791	273,790	-	-	297,791	273,790
Health resources	386,339	371,832	-	-	386,339	371,832
Total expenses	783,354	746,043	3,771	2,468	787,125	748,511
Excess (deficiency) before transfers	(14,504)	(20,604)	24,218	79,940	9,714	59,336
Transfers	5,682	13,624	2,666	3,714	8,348	17,338
Change in net assets	(8,822)	(6,980)	26,884	83,654	18,062	76,674
Net assets						
Beginning of year, as restated	194,093	201,073	406,975	323,321	601,068	524,394
End of year	$ 185,271	$ 194,093	$ 433,859	$ 406,975	$ 619,130	$ 601,068

Governmental activities decreased the Department's net assets by $8.8 million in FY 2008. There was an increase in the State appropriated funds of $18.5 from FY 2007 to FY 2008 because of a significant increase in expenses for the Department. The increase was due partially to a $9 million increase in appropriation for the developmental disabilities program due to an increase in the number of clients served and an increase in the average cost per client. Also in FY 2008, the Department received emergency appropriations in the amount of $10 million for the adult mental health program to cover increased service costs and $1.8 million for emergency medical services to cover increases in collective bargaining augmentation for the ambulance service provider on Oahu.

Revenues of the Department's business-type activities, which decreased by $54.4 million from 2007, 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 program investment income is from the Department's participation in the State Treasury Investment Pool System. In FY 2008, there was a significant decrease

in revenue from the environmental health loan programs due to a decrease in the number of loan agreements executed.

For the fiscal year ending June 30, 2008, business-type activities increased the Department's net assets by $24.2 million before transfers whereas in FY 2007, the increase was $79.9 million before transfers. The key element this fiscal year over last was due in large part to the decrease of $55.0 million in operating grants and contributions over FY 2007.

Total Department-wide expenses for FY 2008 were $787.1 million of which $783.4 million was for governmental activities. Overall the Department is organized into four major administrations.

Financially, the largest administration is the Health Resources Administration that expended approximately 49.1% of all expenses. FY 2008 expenditures for this Administration increased $14.5 million over FY 2007. Major programs included in this administration include:

- Developmental Disabilities Division that services disabled clients in Hawaii while addressing the conditions of the Makin Settlement;

- Family Health Services Division ("FHSD") that administers the State's Healthy Start and Early Intervention programs 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;

- Community Health Division that provides Public Health Nursing Services, which in concert with the two programs of the FHSD continues to provide services necessary to meet the requirements of the settled Felix lawsuit, and the chronic disease management and control program;

- 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;

- Tobacco Settlement Project/Healthy Hawaii Initiative program which seeks to prevent chronic diseases such as heart disease, cancer and diabetes utilizing tobacco settlement funds for programs that work to decrease tobacco use, improve nutrition and promote physical activities;

- Communicable Disease Division which provides tuberculosis control, Hansen's disease control programs in the community and at Kalaupapa, and STD/AIDS prevention services;

- 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;

- Dental Health Division which is the smallest division in this administration and implements a dental hygiene program in the public schools and provides public health dental services to the State's disabled clientele.

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 developmental disabilities program experienced a $9 million increase in expenditures which was due mainly to an increase in the number of clients served and an increase in the average cost per client. Also, the expenditures for the Tobacco Settlement Project were $10 million higher than in FY 2007 due in part to the receipt of additional revenues from the Master Settlement Agreement as a result of Hawaii's participation in the strategic contribution fund.

The Behavioral Health Services Administration expended a significant 37.8% of departmental funds with an increase of $24.0 million over FY 2007. 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.

A portion of the increase in expenditures is attributed to the AMHD's continuing efforts to identify, place and treat eligible clients. In FY 2008, AMHD serviced 15,586 clients as compared to the 13,923 clients serviced in FY 2007. AMHD's Access Line continues to provide the community with a resource site for information as well as a referral point for possible clients. CAMHD continues to respond to the ongoing requirements of the settled Felix case, while ADAD is still responsible for implementing the "Ice" (nickname for methamphetamine) initiative and the expenditure of the additional appropriated funds, including an additional $735,000 which was appropriated for adolescent school-based substance abuse treatment services.

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 9.0% of the departmental funds with an increase of $2.9 million expended over FY 2007. This increase in expenditures is mainly due to the public's continued acceptance and increasing participation in the Deposit Beverage Container Program. This program continues to expand every year with increasing amounts being recycled resulting in related costs increasing. This increase is reflected in the rising redemption rates for recycling beverage containers. In FY 2008, the redemption rate increased to 72 percent with 681,706,599 beverage containers redeemed as compared to a 68 percent redemption rate in FY 2007, with 632,918,382 beverage containers redeemed. Other programs in this administration are 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 4.1% of the departmental funds.

The following table presents revenues and expenditures of the governmental funds for FY 2008 and FY 2007 ($000):

	2008	2007 (restated)
Revenues		
State general fund allotments	$ 463,574	$ 445,079
Nonimposed fringe benefits	48,308	47,303
Tobacco settlement funds	56,891	36,507
Deposit beverage container program	22,390	22,588
Intergovernmental	114,325	108,768
Taxes, fees, fines and other	62,730	50,844
Investment income	2,027	5,431
Total revenues	770,245	716,520
Expenditures		
General administration	32,459	35,032
Environmental health	66,541	65,129
Behavioral health	296,744	273,866
Health resources	385,889	367,820
Total expenditures	781,633	741,847
Deficiency of revenues over expenditures before transfers	$ (11,388)	$ (25,327)

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.

During the fiscal year ended June 30, 2008, general fund revenues were $499.9 million, including $48.3 million for fringe benefits paid directly from the State general fund. General fund expenditures were $514.9 million, including the $48.3 million for fringe benefits discussed above.

For FY 2008, the tobacco settlement fund earned revenues of $57.5 million, including investment income of $0.6 million. $37.1 million was transferred to other State departments and agencies of which $12.8 million was for the State's Emergency and Budget Reserve Fund (a.k.a. Rainy Day Fund), and $14.6 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.

In FY 2008, the deposit beverage container fund collected $22.4 million in beverage container deposit administrative fees. Of this amount received, $19.8 million was paid to recycling centers, or utilized to fund the program. The bottle bill fund collected $34.7 million in deposits from distributors and repaid $32.0 million in deposits to consumers during FY 2008.

The proprietary funds consist of two funds: Water Pollution Control Revolving Fund and Drinking Water Treatment Revolving Loan Fund and are reported in the 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 2008, this fund received $8.8 million and $1.0 million of federal and state funds, respectively. The fund also disbursed $24.4 million in loan proceeds and collected $15.5 million in principal repayments in 2008. As compared to 2007, the fund collected $49.3 million and $2.1 million in federal and state contributions, and disbursed $63.5 million in loan proceeds and collected $13.1 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 2008, this fund received $9.9 million and $1.7 million of federal and state funds, respectively. The fund also disbursed $11.1 million in loan proceeds and collected $2.3 million in principal repayments in 2008. As compared to 2007, the fund disbursed $25.1 million in loan proceeds and collected $1.2 million in principal payments.

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

Budgetary Analysis

The following budget information relates to the general fund, tobacco settlement fund, and deposit beverage container fund for 2008.

	Budgeted Amounts ($000)		Actual on a Budgetary
	Original	Final	Basis ($000)
General fund			
Revenues	$ 457,264	$ 453,159	$ 459,247
Expenditures			
General administration	19,772	19,039	19,722
Environmental health	20,746	20,432	20,836
Behavioral health	208,290	206,185	210,187
Health resources	208,456	207,504	208,502
Tobacco settlement fund			
Revenues	53,847	53,875	58,500
Expenditures	53,847	53,875	48,725
Deposit beverage container fund			
Revenues	71,071	71,080	59,661
Expenditures	71,071	71,080	65,551

The differences between the original budgeted appropriation and actual expenditures for the general fund were primarily due to the emergency appropriation for the adult mental health program to cover the increased service costs due to the increase in the number of clients served as well as an increase in services provided. The actual expenditures on a budgetary basis of the general fund were approximately $6.1 million more than the final budgeted allocations.

For the tobacco settlement fund, the actual expenditures of $48.7 million in FY 2008 were $9.8 million less than the actual revenues received. The Tobacco Settlement Project received an increase in revenues in FY 2008 from the Master Settlement Agreement due to Hawaii's participation in the strategic contribution fund.

The deposit beverage container program received revenues from the program's beverage container deposit administrative fees of $22.4 million, which is based on the actual number of containers sold. In fiscal year 2007, there were 936,412,347 containers sold. The amount of containers sold increased to 947,692,357 in fiscal year 2008.

Capital Assets

As of June 30, 2008, the Department's governmental activities had invested approximately $64.2 million (net of accumulated depreciation) in a broad range of capital assets. This amount represents a decrease of about $3.1 million. The decrease is primarily related to depreciation expense which approximated $5.8 million, offset by the $2.7 million in additions purchased in the current year. See Note 4 to the Department's financial statements for a description of capital assets activities for the fiscal year ended June 30, 2008.

Capital Assets
Governmental Activities
June 30,
($000)

	2008	2007
Land	$ 1,018	$ 1,018
Land and building improvements	134,145	134,145
Furniture and equipment	21,704	19,454
Total	156,867	154,617
Accumulated depreciation	92,694	87,332
Total capital assets, net	$ 64,173	$ 67,285

Currently Known Facts, Decisions, or Conditions

The effects of the slow down 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 mounting operational costs. However, the number of consumers with severe and persistent mental illness continues to increase. The number of adult consumers increased from 13,923 in FY 2007 to 15,586 in FY 2008.

Similarly, in the developmental disabilities program, the number of clients continues to increase by about 200 clients each year. In FY 2008, the program served 2,530 clients in the home and community-based waiver program. Further, the Federal Medical Assistance Percentage ("FMAP") decreased from 57.55% to 56.50% effective October 1, 2007. This means that the state match requirement increased by 1.05%. The FMAP will change again effective October 1, 2008 and will decrease to 55.11%. The FY 2008 year-end Average Cost per Client ("APC") increased to $42,316 as compared to the FY 2007 year-end APC of $39,188. Faced with the prospect of serving increasingly more clients with basically no increase in funding, program management has been reevaluating the program and its services to achieve operational efficiencies.

And lastly, the Water Pollution Control Revolving Fund ("WPCRF") and the Drinking Water Treatment Revolving Loan Fund ("DWTRLF") executed a total of 4 loan agreements in the amount of $76.3 million and 3 loan agreements for $6.3 million respectively during FY 2008. In FY 2009, the WPCRF expects to execute a total of 14 loan agreements in the amount of $70.6 million while the DWTRLF expects to execute a total of 7 loan agreements for $29.8 million.

State of Hawaii
Department of Health
Department-wide – Statement of Net Assets
June 30, 2008

	Governmental Activities	Business-Type Activities	Total
Assets			
Current assets			
Equity in cash and cash equivalents in State Treasury	$ 158,556,986	$ 183,070,148	$ 341,627,134
Receivables			
Due from State Treasury	63,146,816	-	63,146,816
Due from other State agencies	24,673,788	-	24,673,788
Accrued interest and loan fees	854,168	3,176,586	4,030,754
Accounts receivable	1,605,736	-	1,605,736
Due from Federal government	4,011,933	408,850	4,420,783
Tobacco settlement receivable	26,900,000	-	26,900,000
Current maturities of loans receivable	-	21,629,774	21,629,774
	121,192,441	25,215,210	146,407,651
Total current assets	279,749,427	208,285,358	488,034,785
Loans receivable, net of current maturities	-	226,015,159	226,015,159
Capital assets, net of accumulated depreciation	64,173,220	364,971	64,538,191
Total assets	$ 343,922,647	$ 434,665,488	$ 778,588,135
Liabilities and Net Assets			
Current liabilities			
Vouchers and contracts payable	$ 71,727,787	$ 253,359	$ 71,981,146
Accrued wages and employee benefits payable	11,079,609	96,471	11,176,080
Accrued vacation, current portion	8,940,254	79,066	9,019,320
Workers' compensation liability	452,220	-	452,220
Deferred income	559,624	-	559,624
Due to State of Hawaii	37,245	-	37,245
Due to other State Agencies	33,875,551	-	33,875,551
Beverage container deposits	15,683,762	-	15,683,762
Total current liabilities	142,356,052	428,896	142,784,948
Accrued vacation, net of current portion	16,295,378	199,645	16,495,023
Other postemployment benefits	-	178,293	178,293
Total current liabilities	158,651,430	806,834	159,458,264
Commitments and contingencies			
Net assets			
Investment in capital assets	64,173,220	364,971	64,538,191
Restricted for			
Loans	-	433,493,683	433,493,683
Tobacco prevention and control	39,519,277	-	39,519,277
Capital projects	12,614,430	-	12,614,430
Other purposes	90,382,083	-	90,382,083
Unrestricted	(21,417,793)	-	(21,417,793)
Total net assets	185,271,217	433,858,654	619,129,871
Total liabilities and net assets	$ 343,922,647	$ 434,665,488	$ 778,588,135

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, 2008

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets – Primary Government: Governmental Activities	Business-Type Activities	Total
Primary government						
Governmental activities						
General administration	$ 31,898,735	$ 673,657	$ 10,364,493	$ (20,860,585)	$ -	$ (20,860,585)
Environmental health administration	67,325,064	6,112,799	12,897,911	(48,314,354)	-	(48,314,354)
Behavioral health services administration	297,791,263	36,847,565	14,788,073	(246,155,625)	-	(246,155,625)
Health resources administration	386,338,832	10,421,246	80,414,029	(295,503,557)	-	(295,503,557)
Total governmental activities	783,353,894	54,055,267	118,464,506	(610,834,121)	-	(610,834,121)
Business-type activities						
Environmental health loan programs	3,771,670	6,582,293	21,406,653	-	24,217,276	24,217,276
Total business-type activities	3,771,670	6,582,293	21,406,653	-	24,217,276	24,217,276
Total primary government	$ 787,125,564	$ 60,637,560	$ 139,871,159	(610,834,121)	24,217,276	(586,616,845)
General revenues						
State general fund allotments, net				463,574,264	-	463,574,264
Nonimposed employee fringe benefits				48,307,990	-	48,307,990
Environmental response tax				492,940	-	492,940
Deposit beverage container fee				22,389,110	-	22,389,110
Advance glass disposal fee				1,695,473	-	1,695,473
Tobacco tax				4,157,542	-	4,157,542
Tobacco settlement funds				55,712,799	-	55,712,799
Transfers				5,682,196	2,666,000	8,348,196
Total general revenues and transfers				602,012,314	2,666,000	604,678,314
Change in net assets				(8,821,807)	26,883,276	18,061,469
Net assets at July 1, 2007, as previously reported				197,032,684	406,975,378	604,008,062
Prior period adjustment				(2,939,660)	-	(2,939,660)
Net assets at July 1, 2007, as restated				194,093,024	406,975,378	601,068,402
Net assets at June 30, 2008				$ 185,271,217	$ 433,858,654	$ 619,129,871

The accompanying notes are an integral part of this statement.

State of Hawaii
Department of Health
Governmental Funds
Balance Sheet
June 30, 2008

	General	Tobacco Settlement	Deposit Beverage Container	Other Funds	Total Governmental
Assets					
Equity in cash and cash equivalents in State Treasury	$ -	$ 46,021,707	$ 40,806,191	$ 71,729,088	$ 158,556,986
Due from State Treasury	50,516,050	-	-	12,630,766	63,146,816
Due from other State agencies	-	-	-	13,926,374	13,926,374
Internal balances	7,008,283	-	-	(7,008,283)	-
Accrued interest receivable	-	356,001	194,134	304,033	854,168
Accounts receivable	-	-	1,605,736	-	1,605,736
Due from Federal government	-	-	-	4,011,933	4,011,933
Total assets	$ 57,524,333	$ 46,377,708	$ 42,606,061	$ 95,593,911	$ 242,102,013
Liabilities and Fund Balances					
Liabilities					
Vouchers and contracts payable	$ 49,272,220	$ 1,810,053	$ 1,967,016	$ 15,315,998	$ 68,365,287
Accrued wages and employee benefits	8,578,604	94,458	30,243	2,376,304	11,079,609
Deferred income	-	-	-	559,624	559,624
Due to State of Hawaii	37,245	-	-	-	37,245
Due to other State agencies	954,521	11,678,920	-	4,429,610	17,063,051
Beverage container deposits	-	-	15,683,762	-	15,683,762
Total liabilities	58,842,590	13,583,431	17,681,021	22,681,536	112,788,578
Fund balance					
Reserved for encumbrances	33,975,864	8,249,397	17,646,069	41,509,740	101,381,070
Unreserved, reported in					
General fund	(35,294,121)	-	-	-	(35,294,121)
Tobacco settlement fund	-	24,544,880	-	-	24,544,880
Deposit beverage container fund	-	-	7,278,971	-	7,278,971
Special revenue funds	-	-	-	31,402,635	31,402,635
Total fund balance (deficit)	(1,318,257)	32,794,277	24,925,040	72,912,375	129,313,435
Total liabilities and fund balance	$ 57,524,333	$ 46,377,708	$ 42,606,061	$ 95,593,911	$ 242,102,013

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, 2008

Total fund balance – governmental funds	$	129,313,435
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.		6,725,000
Capital assets used in governmental activities are not financial resources and therefore not reported as an asset in the governmental funds.		64,173,220
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.		(25,235,632)
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.		(452,220)
Receivables from other State agencies not available to pay for current-period expenditures and therefore are not reported as an asset in the governmental funds.		10,747,414
Net assets of governmental activities	$	185,271,217

The accompanying notes are an integral part of this statement.

State of Hawaii
Department of Health
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balance
Year Ended June 30, 2008

	General	Tobacco Settlement	Deposit Beverage Container	Other Funds	Total
Revenues					
State allotment, net	$ 451,543,354	$ -	$ -	$ 12,030,910	$ 463,574,264
Intergovernmental	-	-	-	114,325,276	114,325,276
Tobacco settlement	-	56,891,500	-	-	56,891,500
Deposit beverage container program	-	-	22,389,510	-	22,389,510
Nonimposed employee fringe benefits	48,307,990	-	-	-	48,307,990
Taxes, fees, fines and other	-	-	-	62,729,657	62,729,657
Interest income	-	601,473	553,123	872,769	2,027,365
Total revenues	499,851,344	57,492,973	22,942,633	189,958,612	770,245,562
Expenditures					
General administration	23,523,069	-	-	8,935,635	32,458,704
Environmental health	26,326,022	-	19,759,423	20,455,666	66,541,111
Behavioral health services	238,727,112	-	-	58,017,026	296,744,138
Health resources	226,326,582	11,946,792	-	147,615,652	385,889,026
Total expenditures	514,902,785	11,946,792	19,759,423	235,023,979	781,632,979
Excess (deficiency) of revenues over expenditures	(15,051,441)	45,546,181	3,183,210	(45,065,367)	(11,387,417)
Other financing sources (uses)					
Transfers in	-	76,989	-	50,199,687	50,276,676
Transfers out	-	(37,126,100)	-	(3,896,844)	(41,022,944)
Total other financing sources (uses)	-	(37,049,111)	-	46,302,843	9,253,732
Net change in fund balance	(15,051,441)	8,497,070	3,183,210	1,237,476	(2,133,685)
Fund balance at July 1, 2007, as previously reported	20,758,493	24,297,207	21,741,830	67,589,250	134,386,780
Prior period adjustment	(7,025,309)	-	-	4,085,649	(2,939,660)
Fund balance at July 1, 2007, as restated	13,733,184	24,297,207	21,741,830	71,674,899	131,447,120
Fund balance at June 30, 2008	$ (1,318,257)	$ 32,794,277	$ 24,925,040	$ 72,912,375	$ 129,313,435

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 Change in Net Assets
Year Ended June 30, 2008

Net change in fund balance – total governmental funds	$	(2,133,685)
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.		(3,111,335)
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.		(154,571)
Decrease 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.		149,320
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.		(3,571,536)
Change in net assets of governmental activities	$	(8,821,807)

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, 2008

	Budgeted Amounts		Actual Amounts
	Original	Final	(Budgetary Basis)
Revenues			
Current-year appropriations	$ 457,263,609	$ 453,159,128	$ 459,246,782
Total revenues	457,263,609	453,159,128	459,246,782
Expenditures			
General administration	19,771,654	19,038,509	19,721,651
Environmental health administration	20,746,178	20,432,038	20,836,230
Behavioral health services administration	208,289,934	206,185,042	210,187,369
Health resources administration	208,455,843	207,503,539	208,501,532
Total expenditures	457,263,609	453,159,128	459,246,782
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, 2008

	Budgeted Amounts		Actual Amounts
	Original	Final	(Budgetary Basis)
Revenues			
Current-year funds	$ 53,847,266	$ 53,874,525	$ 58,499,672
Total revenues	53,847,266	53,874,525	58,499,672
Expenditures			
Health resources administration	53,847,266	53,874,525	48,725,101
Total expenditures	53,847,266	53,874,525	48,725,101
Excess of revenues over expenditures	$ -	$ -	$ 9,774,571

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, 2008

	Budgeted Amounts		Actual Amounts
	Original	Final	(Budgetary Basis)
Revenues			
Current-year funds	$ 71,071,123	$ 71,080,376	$ 59,660,945
Total revenues	71,071,123	71,080,376	59,660,945
Expenditures			
Environmental health administration	71,071,123	71,080,376	65,551,191
Total expenditures	71,071,123	71,080,376	65,551,191
Excess of expenditures over revenues	$ -	$ -	$ (5,890,246)

The accompanying notes are an integral part of this statement.

State of Hawaii
Department of Health
Proprietary Funds – Statement of Net Assets
June 30, 2008

	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Loan Fund	Total
Assets			
Current assets			
Cash held in State Treasury	$ 161,842,803	$ 21,227,345	$ 183,070,148
Loan fees receivable	592,962	466,862	1,059,824
Accrued interest receivable	1,119,176	55,503	1,174,679
Other accrued interest	833,045	109,038	942,083
Due from federal government	-	408,850	408,850
Current portion of loans receivable	18,702,182	2,927,592	21,629,774
Total current assets	183,090,168	25,195,190	208,285,358
Loans receivable, net of current portion	179,279,631	46,735,528	226,015,159
Capital assets, net of accumulated depreciation, at cost	7,476	357,495	364,971
Total assets	$ 362,377,275	$ 72,288,213	$ 434,665,488
Liabilities			
Current liabilities			
Accounts payable and other accrued liabilities	$ 140,080	$ 288,816	$ 428,896
Total current liabilities	140,080	288,816	428,896
Accrued vacation, net of current portion	161,420	38,225	199,645
Other postemployment benefits	143,401	34,892	178,293
Total liabilities	444,901	361,933	806,834
Net Assets			
Invested in capital assets	7,476	357,495	364,971
Restricted – expendable	361,924,898	71,568,785	433,493,683
Total net assets	361,932,374	71,926,280	433,858,654
Total liabilities and net assets	$ 362,377,275	$ 72,288,213	$ 434,665,488

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, 2008

	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Loan Fund	Total
Operating revenues			
Interest income from loans	$ 3,294,900	$ 232,078	$ 3,526,978
Administrative loan fee	1,583,511	1,471,804	3,055,315
Total revenues	4,878,411	1,703,882	6,582,293
Expenses			
Administrative	1,628,551	535,374	2,163,925
State program management	-	1,250,213	1,250,213
Water protection	-	44,193	44,193
Small systems	-	313,339	313,339
Total expenses	1,628,551	2,143,119	3,771,670
Operating income (loss)	3,249,860	(439,237)	2,810,623
Nonoperating revenues			
State contributions	995,000	1,671,000	2,666,000
Federal contributions	8,834,589	9,918,777	18,753,366
Other interest income	2,340,452	312,835	2,653,287
Total nonoperating revenues	12,170,041	11,902,612	24,072,653
Change in net assets	15,419,901	11,463,375	26,883,276
Net assets			
Beginning of year	346,512,473	60,462,905	406,975,378
End of year	$ 361,932,374	$ 71,926,280	$ 433,858,654

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, 2008

	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Loan Fund	Total
Cash flows from operating activities			
Interest income from loans	$ 3,386,359	$ 227,839	$ 3,614,198
Administrative loan fees	1,582,077	1,290,048	2,872,125
Principal repayments on loans	15,463,271	2,290,182	17,753,453
Disbursement of loan proceeds	(24,378,676)	(11,073,824)	(35,452,500)
Payments to employees	(1,294,188)	(450,110)	(1,744,298)
Payments rendered by other State agencies	(47,117)	(40,328)	(87,445)
Payments to vendors	(103,711)	(1,355,038)	(1,458,749)
Net cash flows used in operating activities	(5,391,985)	(9,111,231)	(14,503,216)
Cash flows from noncapital financing activities			
State contributions	995,000	1,671,000	2,666,000
Federal contributions	8,834,589	9,996,414	18,831,003
Repayments from other funds	-	392,700	392,700
Net cash flows provided by noncapital financing activities	9,829,589	12,060,114	21,889,703
Cash flows from capital and related financing activities			
Purchase of equipment	-	(171,214)	(171,214)
Net cash flows used in capital and related financing activities	-	(171,214)	(171,214)
Cash flows from investing activities			
Other interest	2,889,039	365,889	3,254,928
Net cash flows provided by investing activities	2,889,039	365,889	3,254,928
Net increase in cash	7,326,643	3,143,558	10,470,201
Cash balance			
Beginning of year	154,516,160	18,083,787	172,599,947
End of year	$ 161,842,803	$ 21,227,345	$ 183,070,148

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, 2008

	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Loan Fund	Total
Reconciliation of operating income (loss) to net cash used in operating activities			
Operating income (loss)	$ 3,249,860	$ (439,237)	$ 2,810,623
Adjustments to reconcile operating income (loss) to net cash used in operating activities			
Depreciation expense	9,575	83,822	93,397
Change in assets and liabilities			
Loans receivable	(1,433)	(8,783,641)	(8,785,074)
Accrued interest on loans receivables	91,459	(4,240)	87,219
Loan fees receivable	(8,915,406)	(181,757)	(9,097,163)
Accounts payable and other accrued liabilities	30,559	178,930	209,489
Other postemployment benefits	143,401	34,892	178,293
Net cash used in operating activities	$ (5,391,985)	$ (9,111,231)	$ (14,503,216)

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, 2008

	Agency Funds
Assets	
Cash and cash equivalents	$ 383,218
Total assets	$ 383,218
Liabilities	
Due to others	$ 383,218
Total liabilities	$ 383,218

The accompanying notes are an integral part of this statement.

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, 2008, 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 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.

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 fund type) and are included in Other Funds in the fund financial statements.

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 expended by the Department in a custodial capacity.

Equity in Cash and Cash Equivalents 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* ("Statement No. 40"), 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") for the fiscal year ended June 30, 2008 which may be obtained from the Department of Accounting and General Services' ("DAGS") website: http://hawaii.gov/dags/rpts.

In April 2009, DAGS issued Comptroller's Memorandum No. 2009-11, informing State agencies participating in the State Treasury Investment Pool that the State's investments in auction rate securities were impaired as of and for the year ended June 30, 2008 and that each participating State agency would be allocated a portion of the impairment. The Department's total allocated impairment loss for fiscal 2008 amounted to $9,052,399.

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 $24.7 million is comprised of $14.5 million for the Developmental Disabilities/Mental Retardation Waiver program and $10.2 for other Medicaid rehabilitation option claims.

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 75% 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 $55,700,000 in tobacco settlement proceeds during the year ended June 30, 2008 for the calendar year ended December 31, 2007. 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 $26,900,000 in the statement of net assets representing tobacco settlements earned for the period January 1, 2008 through June 30, 2008.

General Fund Unreserved Fund Balance Deficit
The general fund had a deficit in the unreserved fund balance at June 30, 2008 of $1,318,257. The deficit resulted primarily from expenditures being recorded on the accrual basis when incurred, and revenues being recognized only when the funds are measurable and available.

Reserved for 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.

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 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, 2008 consisted primarily of Federal grant funds for which all eligibility requirements had not yet been met.

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.

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.

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.

New Accounting Pronouncements
In November 2006, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations.* This Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The provisions of this Statement are effective for the fiscal year beginning after December 15, 2007. Management does not expect this Statement to have a material effect on the Department's financial statements.

In June 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets.* The provisions of this Statement establish accounting and financial reporting requirements for intangible assets to reduce inconsistencies, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments. This Statement also results in a more faithful representation of the service capacity of intangible assets – and therefore the financial position of governments – and of the periodic cost associated with the usage of such service capacity in governmental financial statements. The provisions of this Statement are effective for periods beginning after June 15, 2009. Management does not expect this statement to have a material effect on the Department's financial statements.

In November 2007, the GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, effective for the Department's fiscal year beginning July 1, 2008. Statement No. 52 requires that land and other real estate held as investments by endowments

be reported at fair value at the reporting date. Changes in fair value during the period should be reported as investment income. Management does not expect this Statement to have a material effect on the Department's financial statements.

In June 2008, the GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments.* The objective of this Statement is to enhance the usefulness and comparability of derivative instrument information reported by state and local governments. This Statement provides a comprehensive framework for the measurement, recognition, and disclosure of derivative instrument transactions. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009. Management does not expect this Statement to have a material effect on the Department's financial statements.

In December 2008, GASB issued GASB Technical Bulletin ("GASBTB") No. 2008-1, *Determining the Annual Required Contribution Adjustment for Postemployment Benefits.* This Technical Bulletin clarifies the requirements for calculating the annual required contribution adjustment. The provisions of this Technical Bulletin are effective for financial statements for periods ending after December 15, 2008. Management does not expect that this Technical bulletin will have an effect on the Department's financial statements.

In March 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions.* This Statement provides clearer fund balance classifications that can be more consistently applied and clarifies the existing governmental fund type definitions. This Statement also establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds and provides for additional classifications such as restricted, committed, assigned, and unassigned fund balance. The provisions of this Statement are effective for the fiscal year beginning after June 15, 2010. Fund balance reclassifications made to conform to the provisions of this Statement will be applied retroactively by restating the fund balance for all prior periods presented.

In April 2009, the GASB issued Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.* The objective of this Statement is to identify the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of state and local governmental entities that are presented in conformity with GAAP. The requirements of this Statement became effective upon its issuance and did not materially impact 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.

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

Budgets are adopted for the General Fund of the Department 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, 2008, 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	$ -	$ 9,774,571	$ (5,890,246)
Reserve for encumbrances at year end	33,975,864	8,249,397	17,646,069
Expenditures for liquidation of prior year's encumbrances	(44,985,756)	(8,880,225)	(8,329,377)
Accruals and other adjustments	(4,041,549)	36,402,438	(243,236)
Excess of revenues over expenditures (expenditures over revenues) – GAAP basis	$ (15,051,441)	$ 45,546,181	$ 3,183,210

3. Loans Receivable

At June 30, 2008, the proprietary funds loans receivable consisted of loans to county governmental units for the water pollution control and drinking water treatment programs. The loans require

annual, semi-annual or quarterly payments, including interest at 0.00% to 3.02%, 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. Accrued interest receivable on the loans amounted to approximately $1,175,000 at June 30, 2008.

The following is a schedule of principal payments due on loans for projects completed or in progress as of June 30, 2008:

Year ending June 30,	
2009	$ 21,629,774
2010	20,193,541
2011	20,549,029
2012	20,885,962
2013	21,249,235
Thereafter	143,137,392
	$ 247,644,933

4. Capital Assets

Capital asset activity for the year ended June 30, 2008 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	132,281,512	764	-	132,282,276
Furniture and equipment	19,454,438	2,749,869	(500,250)	21,704,057
Total capital assets being depreciated	153,598,877	2,750,633	(500,250)	155,849,260
Less: Accumulated depreciation				
Land improvements	1,842,077	8,340	-	1,850,417
Building and building improvements	72,737,237	3,916,311	-	76,653,548
Furniture and equipment	12,753,088	1,923,092	(486,025)	14,190,155
Total accumulated depreciation	87,332,402	5,847,743	(486,025)	92,694,120
Governmental activities capital assets, net	$ 67,284,555	$ (3,097,110)	$ (14,225)	$ 64,173,220
Business-type activities				
Capital assets being depreciated				
Furniture and equipment	$ 1,009,781	$ 171,214	$ -	$ 1,180,995
Total capital assets being depreciated	1,009,781	171,214	-	1,180,995
Less: Accumulated depreciation for equipment	722,627	93,397	-	816,024
Total accumulated depreciation	722,627	93,397	-	816,024
Business-type activities capital assets, net	$ 287,154	$ 77,817	$ -	$ 364,971

Current period depreciation expense was charged to functions as follows:

Governmental activities	
General administration	$ 576,070
Environmental health	2,000,394
Behavioral health	1,760,650
Health resources	1,510,629
Total depreciation expense – governmental activities	$ 5,847,743
Business-type activities	
Environmental health	$ 93,397
Total depreciation expense – business-type activities	$ 93,397

5. Long-Term Obligation

The changes to the accrued vacation liability during 2008 were as follows:

Balance at July 1, 2007	$ 25,081,061
Increase	13,075,393
Decrease	(12,642,111)
Balance at June 30, 2008	25,514,343
Less: Current portion	9,019,320
Noncurrent portion	$ 16,495,023

6. Non-Imposed Employee Fringe Benefits

Non-imposed employee fringe benefits related to General Fund salaries are funded by the State. These costs, totaling approximately $48,300,000 for the fiscal year ended June 30, 2008, have been reported as revenues and expenditures of the Department's General Fund.

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

7. Employee Benefits

Employees' Retirement System
Substantially all eligible employees of the Department are members of the Employees' Retirement System of the State of Hawaii ("ERS"), a cost-sharing, multiple-employer public employee retirement plan. The ERS provides retirement benefits as well as death and disability benefits. All contributions, benefits and eligibility requirements are established by Chapter 88, HRS, and can be amended by legislative action.

The ERS is composed of a contributory retirement option and a noncontributory retirement option. Prior to July 1, 1984, the ERS consisted of only a contributory option. In 1984, legislation was enacted to add a new noncontributory option for members of the ERS who are also covered under social security. Persons employed in positions not covered by social security are precluded from the noncontributory option. The noncontributory option provides for reduced benefits and covers most eligible employees hired after June 30, 1984. Employees hired before that were allowed to continue under the contributory option or to elect the new noncontributory option and receive a refund of employee contributions. All benefits vest after five and ten years of credited service under the contributory and noncontributory options, respectively. Both options provide a monthly retirement allowance based on the employee's age, years of credited service and average final compensation ("AFC"). The AFC is the average salary earned during the five highest paid years of service including the vacation payment, if the employee became a member prior to January 1, 1971. The AFC for members hired on or after that date and prior to January 1, 2003, is based on the three highest paid years of service, excluding the vacation payment. Effective January 1, 2003, the AFC is the highest three calendar years or highest five calendar years plus lump sum vacation payment, highest three school contract years, or last 36 credited months or last 60 credited months plus lump sum vacation payment. Contributions for employees paid from the State General Fund are included as part of the non-imposed fringe benefit costs discussed in Note 6.

Most covered employees of the contributory option are required to contribute 7.8% of their salary. The funding method used to calculate the total employer contribution requirement is the entry age

normal actuarial cost method. Under this method, employer contributions to the ERS are comprised of normal cost plus level annual payments required to amortize the unfunded actuarial accrued liability over the remaining period of 29 years from July 1, 2000.

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

Actuarial valuations are prepared for the entire ERS and are not separately computed for each department or agency. Information on vested and nonvested benefits, and other aspects of the ERS, is also not available on a departmental or agency basis.

ERS issues a CAFR that includes financial statements and required supplementary information which may be obtained from the following address:

Employees' Retirement System of the State of Hawaii
201 Merchant Street, Suite 1400
Honolulu, Hawaii 96813

Effective July 1, 2007, the State adopted the provisions of GASB Statement No. 50, *Pension Disclosures – An Amendment to GASB Statements No. 25 and 27.* The State has determined that it has met the funding requirement, and accordingly, the Department has not recorded a liability for pension benefits in its statement of net assets as of June 30, 2008. To obtain a copy of the State's CAFR, refer to the website address stated in Note 1.

Post-retirement Health Care and Life Insurance Benefits

Plan Description
The State contributes to the Hawaii Employer-Union Health Benefits Trust Fund ("EUTF"), an agent multiple-employer defined benefit plan that replaced the Hawaii Public Employees Health Fund effective July 1, 2003, pursuant to Act 88, SLH of 2001. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees, and their dependents. The State also contributes to the Hawaii State Teachers Association ("HSTA") Voluntary Employees Beneficiary Association ("VEBA") Trust that was established effective March 1, 2006. HSTA VEBA provides health benefits only to HSTA members, retirees and their dependents. The eligibility requirements for retiree health benefits are the same for both plans as follows:

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

- For employees hired after June 30, 1996 but before July 1, 2001, and who retire with less than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service,

the State pays 75% of the base monthly contribution. For those employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Retirees in this category can elect a family plan to cover dependents.

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

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.

Allocated OPEB Cost
The following table shows the components of the annual OPEB cost that have been allocated to the two proprietary funds of the Department for the year ended June 30, 2008:

	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Loan Fund	Total
Annual required contribution	$ 228,977	$ 55,714	$ 284,691
Contributions made	(85,576)	(20,822)	(106,398)
Increase in net OPEB obligation	143,401	34,892	178,293
Net OPEB obligation, beginning of year	-	-	-
Net OPEB obligation, end of year	$ 143,401	$ 34,892	$ 178,293

Amount of Contributions Made
Contributions are financed on a pay-as-you-go basis and the Department's contributions for the years June 30, 2008, 2007, and 2006 were approximately $2,915,000, $2,267,000, and $2,118,000, respectively.

Required Supplementary Information and Disclosures
The State's Comprehensive Annual Financial Report includes the required footnote disclosures and required supplementary information on the State's OPEB plans. The State's CAFR can be found at the DAGS' website: http://hawaii.gov/dags/rpts.

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 ERS. At June 30, 2008, accumulated sick leave was approximately $66,900,000.

Deferred Compensation Plan
The State established a deferred compensation plan ("Plan") in accordance with Section 457 of the Internal Revenue Code, which enables State employees to defer a portion of their compensation. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the Plan, as well as property and rights purchased with these amounts and income attributable to these amounts are held in trust by third party agents for the exclusive benefit of participants and their beneficiaries. The assets and liabilities of the Plan are not reflected in the State of Hawaii or Department's financial statements.

8. Commitments and Contingencies

Operating Leases
The Department leases various office facilities and equipment through fiscal year 2012 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, 2008:

Year ending June 30,		
2009	$	511,000
2010		456,000
2011		409,000
2012		79,000
	$	1,455,000

Rent expenditures for the fiscal year ended June 30, 2008 approximated $2,800,000.

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, 2008, 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, 2008 was approximately $260,000.

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.

9. Restatements to the Department-wide Net Assets and Governmental Funds' Fund Balance

The Department has restated its June 30, 2007 department-wide net assets and governmental funds' fund balances to correct errors in accounting for receivables and amounts due to other State Agencies. The restatement adjustments record liabilities due to other State agencies that were not accrued for and transferred fund balances between governmental funds.

As a result of the correction, the Department made the following adjustments to its previously reported June 30, 2007 department-wide net assets and governmental funds' fund balances.

	Governmental Activities
Net assets at June 30, 2007, as previously reported	$ 197,032,684
Adjustments attributable to	
Understatement of liabilities	(2,939,660)
Net assets at June 30, 2007, as restated	$ 194,093,024

	General Fund	Other Funds	Total Governmental Funds
Fund balances at June 30, 2007, as previously reported	$ 20,758,493	$ 67,589,250	$ 134,386,780
Adjustments attributable to			
Understatement of liabilities	-	(2,939,660)	(2,939,660)
Transfer fund balances	(7,025,309)	7,025,309	-
Fund balances at June 30, 2007, as restated	$ 13,733,184	$ 71,674,899	$ 131,447,120

Schedule of Expenditures of Federal Awards

State of Hawaii
Department of Health
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2008

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 (DHHS)				
Direct Programs				
Special Programs for Aging – Title VII Chapter 3	468	93.041	$ 5,343	$ -
Special Programs for Aging – Title VII Chapter 2	468	93.042	37,813	-
Special Programs for Aging – Title III Part D	401	93.043	97,805	97,805
Special Programs for Aging – Title III Part B	401	93.044	1,969,735	1,883,089
Special Programs for Aging – Title III Part C1 & C2	401	93.045	2,449,399	2,449,399
Nutrition Services Incentive Program	406	93.053	601,545	601,545
Subtotal Aging Cluster			5,020,679	4,934,033 *
Special Programs for Aging – Title IV	405, 478	93.048	774,758	609,851
Special Programs for Aging – Title III Part E	401	93.052	724,681	724,681
Public Health Emergency Preparedness	1297	93.069	3,858,768	- *
Project Ho'omohala – Transition to Adulthood	229	93.104	1,007,372	1,007,372
Maternal and Child Health Federal Consolidated Programs	various	93.110	1,102,501	846,495
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	247	93.116	821,391	-
Emergency Medical Services for Children	388	93.127	31,397	-
Primary Care Services – Resource Coordination and Development	298	93.130	169,070	-
Injury Prevention and Control Research and State and Community Based Programs	various	93.136	413,373	72,600
Projects for Assistance in Transition from Homelessness ("PATH")	various	93.150	450,669	450,669
Hansen's Disease National Ambulatory Care Program	264	93.215	712,989	-
Family Planning – Services	239	93.217	1,746,542	1,210,152
Traumatic Brain Injury State Demonstration Grant Program	434	93.234	9,872	-
Abstinence Education Initiative	273	93.235	135,620	133,090
Cooperative agreements for State Treatment Outcomes and Rural Hospital Flexibility Program	415	93.241	667,963	-
Substance Abuse and Mental Health Services	various	93.243	2,393,169	1,078,053
Universal Newborn Hearing Screening	416	93.251	141,589	-
State Planning Grants Health Care Access for the Uninsured	various	93.256	97,829	-
Immunization Grants	various	93.268	14,228,197	11,338,270
Centers for Disease Control and Prevention	various	93.283	7,386,485	599,694 *
Small Rural Hospital Improvement	454	93.301	118,892	-
Community-Based Family Resource and Support Grants	270	93.590	490,515	404,646
Development Disabilities Basic Support and Advocacy Grants	240	93.630	502,490	452,699
State Survey and Certification of Health Care Providers and Suppliers	various	93.777	1,435,803	-
Centers for Medicare and Medicaid Services Research, Demonstrations and Evaluations	various	93.779	140,059	-
National Bioterrorism Hospital Preparedness Program	435	93.889	2,031,793	1,793,476
Grants to States for Operation of Offices of Rural Health	299	93.913	76,396	-
HIV Care Formula Grants	293	93.917	3,406,027	959,200 *
Cooperative Agreements for State-Based Comprehensive Breast and Cervical Early Detection Programs	448	93.919	963,059	- *
Healthy Start Initiative	various	93.926	980,117	842,562
HIV Prevention Project	266	93.940	1,956,393	873,180
HIV / AIDS Surveillance	various	93.944	197,182	-
Block Grants for Community Mental Health Services	various	93.958	1,764,890	1,746,409
Substance Abuse Prevention and Treatment Block Grants	various	93.959	7,229,481	6,762,456
Preventive Health Services – Sexually Transmitted Diseases Control Grants	268	93.977	445,563	-
Mental Health Disaster Assistance and Emergency Mental Health	358	93.982	694,615	-
Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance System	261	93.988	264,971	-
Preventive Health and Health Services Block Grant	various	93.991	660,783	-
Maternal and Child Health Services Block Grant	various	93.994	2,171,269	5,295
Vital Statistics Cooperative Program	285	93.200-89-7211	199,982	-
Other	409	93.	6,482	-
Subtotal Direct Programs			67,772,637	36,942,688
Pass-through from the State Department of Human Services				
Temporary Assistance for Needy Families	various	93.558	116,279	-
Child Care and Development Block Grant	various	93.575	1,790,821	1,725,988
Association of Public Health Laboratories	355	93.	11,056	-
Subtotal Pass-through Programs			1,918,156	1,725,988
Total Department of Health and Human Services			69,690,793	38,668,676

* Denotes Major Federal Program

State of Hawaii
Department of Health
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2008

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 Agriculture				
Direct Program				
Food Safety Cooperative Agreements	203	10.479	244,200	-
Special Supplemental Nutrition Program for Women, Infants, and Children	275, 295	10.557	32,205,927	1,898,227 *
Other	392	10.	30,609	-
Subtotal Direct Programs			32,480,736	1,898,227
Pass-through from the State Department of Human Services				
State Administrative Matching Grants for the Supplemental Nutrition		10.561	200,766	-
Subtotal Pass-through Programs			200,766	-
Total Department of Agriculture			32,681,502	1,898,227
Environmental Protection Agency ("EPA")				
Direct Program				
Air Pollution Control Program Support	233	66.001	549,200	-
Surveys, Studies, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	294	66.034	454,555	-
Water Pollution Control – State and Interstate Program Support	various	66.419	1,804,595	-
State Public Water System Supervision	232	66.432	444,779	-
Water Quality Management Program	10284-11284	66.454	144,355	-
Capitalization Grants for State Revolving Funds	14206-19206	66.458	8,834,589	8,834,589 *
Nonpoint Source Implementation Grants	3290-7289	66.460	2,259,764	349,899
Capitalization Grants for Drinking Water State Revolving Funds	2207-7207	66.468	10,311,477	8,294,855 *
Beach Monitoring and Notification Program	various	66.472	369,498	-
Water Protection Coordination	449	66.474	354	-
Assessment and Watershed Protection Program Grants	225	66.480	149,000	-
Office of Research and Development, EPA	408	66.511	108,886	-
Water Infrastructure Oversight	294	66.606	2,344	-
Environmental Information Exchange Grant Program	467	66.608	191,496	-
Toxic Substances Compliance Monitoring Cooperative Agreements	243	66.701	164,007	-
TSCA Title IV State Lead Grants	330	66.707	138,310	-
Multi-Media Capacity Building Grants for States and Tribes	various	66.709	29,887	-
Hazardous Waste Management State Program Support	230	66.801	445,560	-
Superfund State Site Specific Cooperative Agreements	various	66.802	157,238	-
State Underground Storage Tanks Program ("UST" Program)	220	66.804	274,586	-
Leaking Underground Storage Tank ("LUST") Trust Fund Program	258	66.805	481,222	-
State Response Program Grants	469	66.817	1,393,245	-
Total Environmental Protection Agency			28,708,947	17,479,343
U.S. Department of Education				
Pass through from the State Department of Education				
Grants for Infants and Toddlers with Disabilities	213	84.181	2,013,137	-
State Improvement Grant II – Early Intervention	481	84.	24,224	17,806
Total Department of Education			2,037,361	17,806
U.S. Department of Defense				
Direct Program				
Defense Environmental Restoration Program	245	12.113	217,118	-
Total Department of Defense			217,118	-
U.S. Department of Justice				
Direct Program				
Enforcing Underage Drinking Laws Program	various	16.727	383,663	363,435
Total Department of Justice			383,663	363,435
U.S. Department of Homeland Security				
Pass through from the State Department of Homeland Security				
Homeland Security Grant Program		97.067	135,355	-
Total Department of Homeland Security			135,355	-
U.S. Department of Labor and Industrial Relations				
Pass through from the State Department of Labor and Industrial Relations				
WIA Pilots, Demonstrations, and Research Projects	480	17.261	654,629	-
Total Department of Labor and Industrial Relations			654,629	-
Total Expenditures of Federal Awards			$ 134,509,368	$ 58,427,487

* Denotes Major Federal Program

State of Hawaii
Department of Health
Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2008

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, 2008. 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	$ 47,148,367
Capitalization Grants for Drinking Water State Revolving Funds	66.468	30,747,184

3. Noncash Awards

The Department also receives noncash awards in the form of vaccine that are provided to children for the Immunization Grants program. The Department expended $11,338,270 in vaccines for the fiscal year ended June 30, 2008.

PART II

Government Auditing Standards

ACcuity LLP
CERTIFIED PUBLIC ACCOUNTANTS

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, 2008, which collectively comprise the Department's basic financial statements and have issued our report thereon dated May 28, 2009. 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

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as Finding Nos. 08-01 through 08-03 to be significant deficiencies in internal control over financial reporting.

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A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider Finding Nos. 08-01 through 08-03 to be material weaknesses.

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 State Auditor and management of the Department in a separate letter.

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 response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the State Auditor, the Department's management, and 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
May 28, 2009

PART III

OMB Circular A-133

ACcuity LLP
CERTIFIED PUBLIC ACCOUNTANTS

Report of Independent Auditors on Compliance with Requirements Applicable to 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 compliance of the State of Hawaii, Department of Health (the "Department") with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The Department's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. 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 Nos. 08-04, through 08-06 in the accompanying schedule of findings and questioned costs, the Department did not comply with requirements regarding Reporting, Eligibility and Earmarking that are applicable to its HIV Care Formula Grants Program. Compliance with such requirements is necessary, in our opinion, for the Department to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described above regarding the Department's compliance with the requirements for Reporting, Eligibility, and Earmarking, the Department complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008. 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. 08-07 and 08-08. We also noted certain other matters that we will report to the State Auditor and management of the Department in a separate letter.

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Internal Control Over Compliance

The 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 Department's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and material weaknesses.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding Nos. 08-04 through 08-06 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider Finding Nos. 08-04 through 08-06 to be material weaknesses.

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 response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the State Auditor, the Department's management, and 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
May 28, 2009

PART IV

Schedule Of Findings and Questioned Costs

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	Yes
Significant deficiency(ies) identified that are not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	Yes
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	None reported
Type of auditor's 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
93.069	Public Health Emergency Preparedness
93.283	Centers for Disease Control and Prevention Investigations and Technical Assistance
	Aging Cluster
93.044	Special Programs for Aging – Title III Part B
93.045	Special Programs for Aging – Title III Part C1 & C2
93.053	Nutrition Services Incentive Program
93.917	HIV Care Formula Grants
93.919	Cooperative Agreements for State-Based Comprehensive Breast and Cervical Early Detection Programs
	U.S. Department of Agriculture
10.557	Special Supplemental Nutrition Program for Women, Infants & Children
	U.S. Environmental Protection Agency
66.458	Capitalization Grants for Clean Water State Revolving Funds
66.468	Capitalization Grants for Drinking Water State Revolving Funds

Dollar threshold used to distinguish between type A and type B programs:	$3,000,000
Auditee qualified as low-risk auditee?	No

II. Financial Statement Findings

			Questioned Cost
Finding No. 08-01:	**Restatement of Beginning Fund Balance / Net Assets (Material Weakness)**		$ -
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

During our current year financial statement audit of the State of Hawaii, Department of Health (the "Department"), we identified an accounting error in the Department's basic financial statements as of and for the year ended June 30, 2007 due to the lack of oversight by fiscal management over the accrual of liabilities. Accordingly, the Department restated its opening net assets attributable to governmental activities and governmental funds' fund balances as of July 1, 2007 to correct these errors which relate to the accounting for appropriations and amounts due to the State of Hawaii, Department of Human Services ("DHS"). The following table reconciles the net assets attributable to governmental activities at June 30, 2007, as previously reported, to the opening net assets attributable to governmental activities at July 1, 2007, as restated:

	Governmental Activities
Net assets at June 30, 2007, as previously reported	$ 197,032,684
Adjustments attributable to	
Understatement of liabilities	(2,939,660)
Net assets at June 30, 2007, as restated	$ 194,093,024

The following table reconciles the governmental funds' fund balances at June 30, 2007, as previously reported, to the opening governmental funds fund balances at July 1, 2007, as restated:

	General	Other	Total Governmental
Fund balances at June 30, 2007, as previously reported	$ 20,758,493	$ 67,589,250	$ 134,386,780
Adjustments attributable to			
Understatement of liabilities	-	(2,939,660)	(2,939,660)
Transfer fund balances	(7,025,309)	7,025,309	-
Fund balances at June 30, 2007, as restated	$ 13,733,184	$ 71,674,899	$ 131,447,120

DHS Payable
During the fiscal 2008 audit, the Centers for Medicare and Medicaid Services ("CMS") requested an audit of the Department's Child and Adolescent Mental Health Division ("CAMHD") program that provides behavioral services for children and adolescents. The audit consisted of reviewing the payments made and subsequent data that was submitted for the program for Federal fiscal years 2004 through 2007. As a result of the audit, the Med-QUEST Division ("MQD") of the DHS determined that the Department owed back to DHS approximately $2.9 million for Federal fiscal years 2004 – 2007. The Department was not aware that they would have to return funds upon reconciliation of the payment information sent to MQD because they had not been notified that they would have to repay funds in the past. The Department assumed that there would not be any repayments required since such a long time had passed since payment data was submitted to MQD.

Transfer of Fund Balances
During fiscal 2007, the Department recorded a due from other funds (in the general fund) and a due to the general fund (in the other funds) in the governmental funds' balance sheet to transfer expenditures that were recorded in the general fund, but represented advances to the other programs. The general fund was subsequently reimbursed when the other funds received their funding. However, in our current year audit, we noted that there was $7.0 million in expenditures improperly transferred out of the general fund. Consequently, a restatement was necessary to properly state the respective funds' fund balance as of June 30, 2007.

Criteria

§__.310 of OMB Circular A-133 requires the auditee to prepare financial statements that reflect its financial position, results of operations or changes in net assets and, where appropriate, cash flows for the fiscal year audited.

§__.320 requires the auditee to submit a reporting package that includes:

(1) Financial statements and schedule of expenditures of federal awards.

(2) Summary schedule of prior audit findings.

(3) Auditor's report.

(4) Corrective action plan.

Although audited financial statements were prepared and submitted as of and for the year ended June 30, 2007, the financial statements submitted were misstated, and restated beginning balances are reported in the financial statements as of and for the year ended June 30, 2008.

Recommendation

We recommend that, and the Department has already, restated the beginning balances in its basic financial statements for the year ended June 30, 2008 to correct the error identified. We also recommend that fiscal management of the Department provide greater oversight to ensure that the basic financial statements are prepared and presented in accordance with generally accepted accounting principles ("GAAP"). The Department should also ensure that the proper amounts are received from and remitted to DHS.

			Questioned Cost
Finding No. 08-02:	**Capital Assets (Material Weakness)**		$ -
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

In prior year audits (starting with the fiscal year 2004 audit), it was noted that the Department did not properly report capital purchases in accordance with the State's policies and procedures. It was recommended that the Department report capital asset additions to the State Procurement Office ("SPO") in a timely manner in accordance with the DAGS – SPO – Inventory Management Branch Training Manual ("State Inventory Manual"). It was also recommended that the Department implement a procedure for property custodians to reconcile quarterly equipment acquisitions in FAMIS to the DAGS computerized inventory reports ("MDB reports") from the State's Fixed Asset Inventory System ("FAIS") in a timely manner.

During our past audits, we noted that the Department implemented procedures to assist the individual programs in recording capital purchases to FAIS in a timely manner by sending each program a detailed listing of all fixed assets purchases recorded to FAMIS on a quarterly basis. The programs are responsible for reconciling this listing to the FAIS inventory reports. We continued to note instances where capital assets were purchased, but not reported in FAIS, resulting in an audit adjustment.

We also noted that the Department is not reporting assets in accordance with the State Inventory Manual, resulting in other audit adjustments. In the current year, we noted the following errors, which resulted in adjustments:

- Expenditures where an asset was charged under a non-fixed asset object code, resulting in the asset not being properly classified in FAMIS, hindering audit testing.
- An instance where an asset was recorded in two different programs at year end. The asset was actually two separate items, which were initially recorded in one program with one decal number, and then later transferred to another program and recorded in that program with two decal numbers, but was not removed from the first program's records.
- Two instances where assets were recorded twice in the same program.
- Two instances where the assets were recorded at an incorrect cost.

- Improper recording of transfers between programs:
  - One instance where the asset was physically transferred between programs, but neither program recorded the asset as being transferred during the current year.
  - One instance where the asset being transferred was properly recorded as a transfer out; however, the transfer-in was not recorded by the other program.
  - Two instances where the asset transfers were recorded in the wrong year as compared to the year that the assets were physically transferred.

Criteria

The Department is required to follow guidance set forth in the State Inventory Manual issued by the Inventory Management Office. The State Inventory Manual is the guide for all State agencies to establish state-wide controls for fixed assets purchased with State and Federal funds. In order for the Department to ensure that their financial records related to fixed assets are properly recorded in FAIS, all of the Department's programs need to comply with the State Inventory Manual.

Recommendations

We continue to recommend that the Department report capital assets to the SPO in a timely manner in accordance with the State Inventory Manual. We also recommend the Department continue to provide listings of fixed assets expenditures recorded in FAMIS to the individual programs and implement a procedure for property custodians to reconcile these expenditures to the FAIS inventory reports and resolve any discrepancies. We recommend that the Department carefully review expenditures to ensure fixed assets are properly recorded to minimize the need for future audit adjustments for misreported assets.

		Questioned Cost
Finding No. 08-03:	**Department of Human Services Transactions (Material Weakness)**	$ -
Federal Agency:	Department of Health and Human Services	
CFDA Number and Title:	This finding is not specific to a Federal Agency	
Award Number and Award Year:	N/A N/A	

Finding and Cause and Effect

Certain of the Department's programs are eligible to receive Medicaid funds for the federal share of the services they provide if the services are provided to Medicaid eligible patients in State programs. However, in prior year audits, it was noted that the Department had difficulty determining the amounts due to and due from DHS related to Medicaid funds.

We noted that there are several different programs within the Department that receive Medicaid funds to pay for the federal share of the Medicaid eligible patients that are seen by the providers. Each program has a different way of tracking the funds that are received from DHS, and each program receives different amounts of Medicaid funds depending on how the programs are set up with DHS. These differences could cause the data provided to be misstated as the Department might assume the information provided is one thing, but the amounts on the schedule might represent something completely different.

Because of these issues, the Department is continually struggling with DHS as to how much money it is entitled to receive. Also, because DHS did not reconcile its payment data to the encounters data, it overpaid the Department and now the Department must find a way to return the overpayments to DHS.

The payable and receivable information is required to be maintained on a full accrual basis for the Department's department-wide statement of net assets.

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 prepare its financial statements 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 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

We recommend that the Department develop a policy for establishing contracts, maintaining records and balances due to and from DHS for the programs that are eligible to receive Medicaid reimbursements. A consistent policy will assist in ensuring that the data that is recorded is appropriate. In addition, if the Department is aware that DHS must reconcile the data at the end of the year, which might result in the Department owing or receiving more Medicaid funds, the Department should ensure that the programs regularly inquire with DHS on the status of the reconciliations. If the Department needs to cut current year costs to repay the prior years' shortfalls, management must know of these shortfalls and include them in the approved budget. However, when the Department becomes aware that it received an overpayment, they should ensure that the funds are available to be retuned to DHS as requested. On the other hand, any additional money that is owed to the Department would provide additional funding for the Department's services.

Section III. Federal Award Findings and Questioned Costs

		Questioned Cost
Finding No. 08-04:	**Reporting (Material Weakness)**	$ -
Federal Agency:	Department of Health and Human Services ("DHHS")	
CFDA Number and Title:	93.917 – HIV Care Formula Grants ("HIV Care")	
Award Number and Award Year:	2 X07HA00050-17-00 4/1/07 – 3/31/08	

Finding and Cause and Effect

During our current year audit, we also noted the following instances of noncompliance with federal reporting requirements for the HIV program:

- Maintenance of Effort Report: The amount of State expenditures for FY 2007 was reported as $4,990,742 compared to $4,591,930 in actual expenditures.

  The HIV program met the Maintenance of Effort levels as required. However, for reporting purposes the HIV program included encumbrances in the total expenditures, in order to show the true costs of the program. State effort should be measured by actual expenditures made during the fiscal year. Also, it is improper to limit the amount of expenditures reported in the current year to the amount reported in the prior year. Total expenditures for all years must be accurately reported.

- The Annual Financial Status Reports, Standard Form ("SF")-269a was submitted approximately three months after the due date, which is submitted by ASO.

- The Final Annual Progress Report was submitted approximately one month after the due date.

Criteria

Each grant document details the reporting requirements for the respective grant year. There are various requirements and deadlines for each report and these are also detailed in the grant agreements. Failure to comply with the reporting requirements may result in deferral or additional restrictions of future funding decisions.

Recommendations

We recommend that program personnel develop and implement procedures to ensure that accurate and complete financial and performance reports are submitted to the awarding agencies. Supporting documentation should be retained and filed in order to ensure the accuracy of data reported as of the relevant date.

We recommend that ASO and the respective program personnel maintain a calendar or spreadsheet with all reporting requirements and submission deadlines, in order to ensure compliance with federal requirements. In the case of a staffing shortage, ASO and program management should ensure that the reports are submitted by another competent individual. Program personnel responsible for reporting should be provided with adequate training and supervision by management.

		Questioned Cost
Finding No. 08-05:	**Eligibility (Material Weakness)**	$ -
Federal Agency:	Department of Health and Human Services ("DHHS")	
CFDA Number and Title:	93.917 – HIV Care Formula Grants	
Award Number and Award Year:	2 X07HA00050-17-00 4/1/07 – 3/31/08	
	2 X07HA00050-18-00 4/1/08 – 3/31/09	

Finding and Cause and Effect

During our current year audit, we tested 40 ADAP patient records and 10 H-COBRA patient records. Due to the Department maintaining insufficient supporting documents, we noted the following instances of noncompliance with eligibility requirements for the HIV Care program:

- For 3 out of 40 patient records tested, the program was unable to provide documentation to evidence the eligibility (estimated value of liquid assets) of the ADAP participants.
- For 8 out of 10 patient records tested, the program was unable to provide adequate documentation to evidence the eligibility (estimated value of liquid assets) of H-COBRA participants.
- For 8 out of 40 ADAP patient records tested, the program was unable to provide documentation to evidence that 6-month recertifications were performed.

We noted that the program has taken steps to remediate this recurring finding from prior years (Finding No. 07-04, No. 06-02, and No. 05-02). However, as the program is still in the process of implementing our recommendations, the program did not meet the Eligibility requirements in fiscal 2008.

Criteria

Title 42, Section 300ff-26(b) of the U.S. Code requires that the Department ensure that eligible individuals receive assistance. In order to qualify for assistance, an individual must have a medical diagnosis of HIV disease and be a low-income individual, as defined by the State.

The Notice of Grant Award to the ADAP, the Health Resources and Services Administration ("HRSA") of DHHS expects all Title II grantees to implement an ADAP recertification process to ensure that individuals remain eligible to receive assistance. At a minimum, an individual is required to be recertified every six months to ensure that the program only services eligible clients.

Recommendation

We recommend that the HIV program conduct initial eligibility certifications and semi-annual eligibility recertifications of all participants as required by federal and State program guidelines. In addition, program personnel should review all case files without exception to ensure that all participant files contain the required documentation.

We also recommend that the HIV program request that the recertification requirement be extended because it is difficult to get patients to recertify when their prescriptions are longer than 6 months. In addition, we recognize that while the program requires that participants complete six month recertification of eligibility, the program is reluctant to discharge clients at the six month point solely on the basis of failure to meet this requirement. Interrupting participants' access to medications could have serious medical implications and is inconsistent with the program's efforts to maintain individuals in medical care, the program continues to provide medications beyond the six months eligibility period concurrent with efforts to obtain updated documentation from participants.

We noted that during the current year (effective January 1, 2008), the State waived the requirement of requiring documentation for the client's estimated value of liquid assets. As such, the findings related to documentation of liquid assets should be resolved in FY 2009.

State of Hawaii
Department of Health
HIV Care Formula Grants
Schedule of Findings and Questioned Costs
Year Ended June 30, 2008

		Questioned Cost
Finding No. 08-06:	**Earmarking (Material Weakness)**	**$ 106,165**
Federal Agency:	Department of Health and Human Services ("DHHS")	
CFDA Number and Title:	93.917 – HIV Care Formula Grants	
Award Number and Award Year:	2 X07HA00050-17-00 4/1/07 – 3/31/08 2 X07HA00050-18-00 4/1/08 – 3/31/09	

Finding and Cause and Effect

During our current year audit of the HIV Care program, we noted the following instances of noncompliance with earmarking requirements for amounts expended on women, infants, children and youth during the grant period. The amount expended was $303,360, which was $106,165 less than required by terms of the applicable grant. The shortfall was due primarily to the fact that the need for services for women, infants and children is less that the amount of funds available.

Criteria

Part Four of the March 2008 Compliance Supplement states:

> "For the purpose of providing health and support services to women, youth, infants, and children with HIV disease, including treatment measures to prevent the prenatal transmission of HIV, a State shall use for each of these populations not less than the percentage of Title II funds in a fiscal year constituted by the ratio of the population involved (women, youth, infants, or children) in the State with AIDS to the general population in the State of individuals with AIDS [42 USC 300ff-21(b)]. This information is provided to the State by HRSA in the annual application guidance (Appendix II, Estimated Number/Percent of Women, Infants, and Children Living with AIDS in States and Territories)."

Per the HRSA application guidance, the percentage of women, infants, children, and youth living with AIDS in Hawaii to the total population with AIDS in Hawaii should be multiplied against the total amount of Ryan White Care Act Title II funds expended for the grant year in determining the required earmark. Therefore, as 12.7% of the total population of people with AIDS in Hawaii are women, infants, children, and youth, the required earmark for the April 1, 2007 through March 31, 2008 grant year was $409,525.

Recommendation

We recommend that program personnel continue to monitor expenditures for specific purposes and ensure compliance with earmarking provisions. Program personnel responsible for monitoring compliance with earmarking provisions should continue to ensure that the providers are aware that the funding is available, should the need arise. The program personnel are aware of the issues and continues to work with the service providers to ensure that all individuals in the target population are served.

State of Hawaii
Department of Health
Centers for Disease Control – National Cancer Prevention and Control Branch
Schedule of Findings and Questioned Costs
Year Ended June 30, 2008

		Questioned Cost
Finding No. 08-07:	**Equipment Management**	$ –
Federal Agency:	Department of Health and Human Services ("DHHS")	
CFDA Number and Title:	93.283 – Centers for Disease Control and Prevention Investigations and Technical Assistance	
Award Number and Award Year:	U58 DP000799-01 6/30/07 – 6/29/08	

Finding and Cause and Effect

During our current year audit, we noted one instance of theft occurred during the prior fiscal year at the Centers for Disease Control and Prevention Investigations and Technical Assistance Program – National Cancer Prevention and Control Branch ("NCPC") program. We noted that the item that was stolen or misplaced was a laptop computer that may have contained sensitive client information, because of the type of services the program provides to individuals, and the access to information that may have been stored on the computer.

Criteria

OMB Circular A-133 says that State shall use, manage, and dispose of equipment acquired under a federal grant in accordance with Sate laws and procedures.

Per SPO State Inventory User Manual, "Safeguards for property which includes procedures for security of property during and after working hours; special care of items that are of a sensitive or theft prone nature; investigating and reporting of thefts, or vandalism, appointment of key or lock custodian."

Recommendation

We recommend that the program follow the SPO manual and monitor its equipment, especially theft sensitive equipment, in order to prevent any future thefts from occurring. We also recommend that policies and procedures for monitoring data access are identified, especially for those individuals who deal with sensitive information.

State of Hawaii
Department of Health
Centers for Disease Control and Prevention – Public Health Emergency Preparedness
HIV Care Formula Grants
Schedule of Findings and Questioned Costs
Year Ended June 30, 2008

			Questioned Cost
Finding No. 08-08:	**Certification for Fully Federally Funded Employees**		$ –
Federal Agency:	Department of Health and Human Services ("DHHS")		
CFDA Number and Title:	93.069 – Public Health Preparedness and Response for Bioterrorism		
	93.917 – HIV Care Formula Grants		
Award Number and Award Year:	CCU916969-07-4	8/31/06 – 8/30/07	
	CCU916969-08-0	8/31/07 – 8/30/08	
	2 X07HA00050-17-00	4/1/07 – 3/31/08	
	2 X07HA00050-18-00	4/1/08 – 3/31/09	

Finding and Cause and Effect

During our testing of the allowability compliance requirement for the Public Health Preparedness and Response for Bioterrorism program and the HIV Care Formula Grants Program, we noted that both programs had employees that spent 100 percent of their time on the grant but did not obtain semi-annual certifications signed by the employees or (per requirement stated below) their supervisors, confirming that they worked solely on grant related activities in accordance with OMB Circular A-87 guidelines for payroll.

Although proper controls are in place to ensure that only employees that actually spend time on grant-related activities actually charged time to the program's appropriation, there is no documentation maintained to confirm that this control was in place and that the time allocated to the program for these employees were periodically reviewed by the employees or their supervisors.

Criteria

In accordance with Office of Management ("OMB") Circular A-87, compensation for personnel services includes all remuneration, paid currently or accrued, for services rendered during the period of performance under federal awards, including but not necessarily limited to wages, salaries, and fringe benefits. The costs of such compensation are allowable to the extent that they satisfy the specific requirements of this Circular. In accordance with the circular, where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

Recommendation

We recommend that the programs implement a procedure to obtain semi-annual certifications from all employees that spend 100 percent of their time on the grants, confirming that they actually worked solely on grant related activities. The certification should be signed by either the employee or their supervisor.

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.

Finding No. 07-01: Restatement of Beginning Fund Balance/Net Assets (Material Weakness)

During our prior year financial statement audit of the Department, we identified an accounting error in the Department's basic financial statements as of and for the year ended June 30, 2006 due to the lack of oversight by fiscal management over the calculation of year end balances. Accordingly, the Department restated its opening net assets attributable to governmental activities and governmental funds' fund balances as of July 1, 2006 to correct these errors which relate to the accounting for appropriations and amounts due from the Department of Human Services ("DHS").

The following table reconciles the net assets attributable to governmental activities at June 30, 2006, as previously reported, to the opening net assets attributable to governmental activities at July 1, 2006, as restated:

	Governmental Activities
Net assets at June 30, 2006, as previously reported	$ 175,207,506
Adjustments attributable to	
Overstatement of allotments	(4,013,827)
Understatement of liabilities and expenses	(1,669,672)
Understatement of receivables	31,549,351
Net assets at July 1, 2006, as restated	$ 201,073,358

The following table reconciles the governmental funds fund balances at June 30, 2006, as previously reported, to the opening governmental funds' fund balances at July 1, 2006, as restated:

	General Fund	Other Funds	Governmental Funds
Fund balances at June 30, 2006, as previously reported	$ 7,333,197	$ 76,923,208	$ 125,977,127
Adjustments attributable to			
Overstatement of allotments	-	(4,013,827)	(4,013,827)
Understatement of liabilities and expenses	-	(1,669,672)	(1,669,672)
Understatement of receivables	7,722,336	-	7,722,336
Fund balances at July 1, 2006, as restated	$ 15,055,533	$ 71,239,709	$ 128,015,964

We recommended that the Department restate the beginning balances in its basic financial statements for the year ended June 30, 2007 to correct the error identified. We also recommended that fiscal management of the Department provide greater oversight to ensure that the basic financial statements are prepared and presented in accordance with generally accepted accounting principles ("GAAP").

Status

Unresolved. The restated June 30, 2006 balances were properly recorded in the fiscal 2007 financial statements. Therefore, this finding will not carry forward. However, other financial statement errors were noted during our current year audit which resulted in the restatement of $2,939,660 in net assets attributable governmental activities and governmental funds' fund balances at June 30, 2007. See current year Finding No. 08-01.

Finding No. 07-02: Capital Assets (Material Weakness)

In prior year audits (starting with the fiscal year 2004 audit), it was noted that the Department did not properly report capital purchases in accordance with the State's policies and procedures. It was recommended that the Department report capital asset additions to the State Procurement Office ("SPO") in a timely manner in accordance with the State Inventory Manual. It was also recommended that the Department implement a procedure for property custodians to reconcile quarterly equipment acquisitions in FAMIS to the DAGS computerized inventory reports ("MDB reports") from FAIS in a timely manner.

In 2007, it was noted that the Department implemented procedures to assist the individual programs in recording capital purchases to FAIS in a timely manner by sending each program a detailed listing of all fixed assets purchases recorded to FAMIS on a quarterly basis. The programs are responsible for reconciling this listing to the FAIS inventory reports. However, we noted instances where the reconciliation was not performed and discrepancies were not resolved. Therefore, we continued to note instances where capital assets were purchased, but not reported in FAIS, resulting in an audit adjustment.

We also noted that the Department is not reporting assets in accordance with the State Inventory Manual, resulting in another audit adjustment.

We recommended that the Department continue to report capital assets to the SPO in a timely manner in accordance with the State Inventory Manual. We also recommend the Department continue to provide listings of fixed assets expenditures recorded in FAMIS to the individual programs and implement a procedure for property custodians to reconcile these expenditures to the FAIS inventory reports and resolve any discrepancies. We recommended that the Department carefully review expenditures to ensure fixed assets are properly recorded to minimize the need for future audit adjustments for misreported assets.

Status

Unresolved. During our current audit, we continued to note numerous instances where capital assets were purchased, but were not reported to FAIS. Since the Department is in the process of implementing our recommendation above in conjunction with its implementation of our recommendation in current year Finding No. 08-02, this finding will not carry forward.

Finding No. 07-03: Reporting (Material Weakness)

During our prior year audit, we noted the following instances of noncompliance with federal reporting requirements for the HIV Care program:

- Maintenance of Effort Report: The amount of State expenditures for FY 2005 was incorrectly reported as $4,990,742 compared to $4,378,512 in actual expenditures.
- Maintenance of Effort Report: The amount of State expenditures for FY 2006 was incorrectly reported as $4,990,742 compared to $4,494,978 in actual expenditures.
- Third Quarter AIDS Drug Assistance Program ("ADAP") Quarterly Report: The amount of State contributions was incorrectly reported as $126,845 compared to $116,845 in actual expenditures.
- The Annual Financial Status Reports, Standard Form ("SF")-269a was submitted approximately two months after the due date.
- The Final Annual Progress Report was submitted approximately one month after the due date.
- The Mid-Year Progress Report was submitted twenty days after the due date.
- The second quarter ADAP Quarterly Report was submitted twenty-three days after the due date.
- The PSC 272 Federal Cash Transaction Report was submitted approximately one month after the due date.
- The Report on Women, Infants, Children and Youth ("WICY") was submitted three days after the due date.
- The Final Report on the Use of Minority AIDS Initiative ("MAI") funds was submitted three days after the due date.
- Per the subrecipient's, AIDS Community Care Team ("ACCT"), audit report for the year ended June 30, 2006, which was received by the HIV Care program in October 2007, we noted that ACCT had not submitted any reports to the Department regarding the monitoring of ACCT's subrecipients or the results thereof.

We also noted the following instances of noncompliance during our testing of the Centers for Disease Control and Prevention Investigations and Technical Assistance program – National Cancer Prevention and Control Branch ("NCPC"):

- As of January 14, 2008, we noted that the Administrative Services Office ("ASO") had not submitted the SF-269 report for the period June 30, 2006 to June 29, 2007, due on September 29, 2007.

- The Interim Annual Progress Report due on January 30, 2007 was submitted approximately 15 days after the due date.

- The two quarterly PSC 272 Federal Cash Transaction Reports tested were submitted approximately 10 days after the due date.

- In our testing of the timeliness of the SF-269 reports, we noted that the interim report, dated February 2007, was not submitted until the end of May 2007, which is two days over the allotted time for submission of the report. We also noted that prior year's final report was not submitted until the end of November 2006, which is one day after the allotted submission deadline.

We also noted the following matter during our testing of the State Survey and Certification of Health Care Providers and Suppliers program:

- For 2 out of 2 Quarterly CMS-64 reports submitted, we were unable to find adequate documentation for the amounts reported.

Finally, we also noted the following instances of noncompliance during our testing of the Clean Water State Revolving Fund and Drinking Water State Revolving Fund programs:

- As of September 30, 2007, we noted that the ASO had not submitted the SF-272 report for the period July 1, 2006 to December 31, 2006, due on January 15, 2007.

We recommended that program personnel develop and implement procedures to ensure that accurate and complete financial and performance reports are submitted to the awarding agencies. Supporting documentation should be retained and filed in order to ensure the accuracy of data reported as of the relevant date.

We recommended that ASO and the respective program personnel maintain a calendar or spreadsheet with all reporting requirements and submission deadlines, in order to ensure compliance with federal requirements. In the case of a staffing shortage, ASO and program management should ensure that the reports are submitted by another competent individual. Program personnel responsible for reporting should be provided with adequate training and supervision by management.

Status

Unresolved. We noted similar instances of this recurring finding were noted during our current year audit of the HIV Care program and are documented in Finding No. 08-04. Additionally, we noted immaterial findings in the other programs reporting, as documented in the Internal Controls and Business Report. Consequently, this finding will not carry forward.

Finding No. 07-04: Eligibility (Material Weakness)

During our prior year audit, we tested 40 ADAP patient records and 9 H-COBRA patient records. Due to the Department maintaining insufficient supporting documents, we noted numerous instances of noncompliance with eligibility requirements for the HIV Care program for both ADAP and H-COBRA participants.

We noted that the program had taken steps to remediate this recurring finding from prior years (Finding No. 06-02 and No. 05-02). However, as the program was still in the process of implementing our recommendations, the program did not meet the Eligibility requirements in fiscal 2007.

We recommended that the Department take the following actions:

- Program personnel should conduct initial eligibility certifications and semi-annual eligibility recertifications of all participants as required by federal and State program guidelines. In addition, program personnel should review all case files without exception to ensure that all participant files contain the required documentation.

- Program personnel should develop and implement a formal participant acceptance process and thoroughly train program staff (and case managers) on how to review applications for eligibility for the H-COBRA program. This process and training should resemble procedures recently implemented in the ADAP program. All documentation supporting participant eligibility should be retained.

Status

Unresolved. Similar instances of this recurring finding were noted during our current year audit and are documented in Finding No. 08-05. Consequently, this finding will not carry forward.

Finding No. 07-05: Earmarking (Material Weakness)

During our prior year audit of the HIV Care program, we noted the amount expended on women, infants children and youth was $261,645, which was $140,659 less than required by terms of the applicable grant. The shortfall was due primarily to the fact that the need for services for women, infants and children is less that the amount of funds available.

We recommended that program personnel develop and implement procedures to monitor expenditures for specific purposes and ensure compliance with earmarking provisions. Program personnel responsible for monitoring compliance with earmarking provisions should continue to ensure that the providers are aware that the funding is available, should the need arise.

Status

Unresolved. A similar instance was noted during our current year audit. Since the Department is in the process of implementing our recommendation above in conjunction with its implementation of our recommendation in current year Finding No. 08-06, this finding will not carry forward.

Finding No. 07-06: Procurement (Material Weakness)

During our testing in the prior year audit of procurement and suspension and debarment requirements for the HIV Care program, we noted two instances of noncompliance with federal requirements:

- While procurement personnel ensure that the awardees are not suspended or debarred by the State, there were no procedures in place to ensure that the program does not execute contracts with federally suspended or debarred parties.

- Per the AIDS Community Care Team ("ACCT") Circular A-133 audit reports for the years ended June 30, 2006 and June 30, 2007, which were received by the HIV Care program in October and November 2007, respectively, we noted that the ACCT does not have a written policy or procedures for the procurement of supplies, and other expendable property, equipment, real property and other non-contractual services with federal funds to ensure that such materials and services are obtained in an effective manner and in compliance with the provisions of applicable federal statutes. It was also noted that the ACCT did not document any procedures for procurement transactions. Without supporting documentation of procurement procedures, the ACCT risks non-compliance with federal Guidelines.

During our testing in the prior year audit of the WIC grants, we noted contract personnel have policies and procedures in place to ensure that the program does not execute contracts with parties that are debarred, suspended, proposed for debarment, declared ineligible, or voluntarily excluded from covered transaction by a federal department or agency in accordance with 45 CFR Part 76. However, for contracts executed by the SPO on behalf of the program, procurement personnel have procedures to ensure that the awardees are not suspended or debarred by the State, but there are no procedures in place to ensure that the program does not execute contracts with federally suspended or debarred parties.

Although we noted that the awardees of the HIV Care program and WIC program contracts tested were not on the federal suspension or debarment listing, without proper controls in place, there is a risk that the program will enter into a procurement contract with a suspended or debarred party.

We recommended that the programs designate an individual to check the awardees of federally funded contracts to the EPLS maintained by the GSA at www.epls.gov. The designated program personnel should also ensure proper documentation is maintained to evidence review of the EPLS.

We understand the contracts in question were procured by the SPO. Therefore, as the SPO sometimes procures goods or services on behalf of the program, we also recommended that the programs inform the SPO when an award is federally funded and work with the SPO to establish who is responsible for ensuring that all federal, as well as State, procurement requirements are met.

We also recommended that the programs issue a management decision on the subrecipient's audit findings within six months after receipt of the respective subrecipient audit report and work with ACCT to ensure that it takes timely and appropriate corrective action on the finding noted.

Status

Resolution ongoing. In the current year, we noted that the HIV program is not checking the awardees to ensure that the awardees are not suspended or debarred as determined by EPLS. However, as there were no new contracts made in the current year, this is an immaterial instance of non compliance, and it is reported in our Internal Controls and Business Issues report as Comment No. 08-07. In addition, in the current year, ACCT created policies and procedures for procurement. As such, this part of the finding is considered resolved.

No similar instances noted for the WIC program in the current year.

As all of the items from the prior year finding were considered resolved or moved to the Internal Controls and Business Issues report, this finding will not carry forward.

Finding No. 07-07: Allowable Costs

In the prior year audit, we noted that the ACCT A-133 audit reports for the years ended June 30, 2006 and June 30, 2007 were prepared by another auditor and received by the HIV Care program in October and November 2007, respectively. While reviewing the reports, we noted several instances of noncompliance with allowable cost requirements:

- The reports stated that ACCT management's allocation of salary taxes and benefits did not match actual time spent by employees. However, no questioned costs were reported.

- ACCT charged to the program approximately $4,000 in allowable costs related to penalties and interest to the program in fiscal years 2006 and 2007. Approximately $2,000 was charged to Contracts #03-218 and #06-162 in fiscal year 2006 and approximately $2,000 in penalties and interest expense to Contract #06-162.

- ACCT was reimbursed for approximately $4,000 in unallowable costs for lease payments which were paid to a related entity. To record lease payments, the ACCT wrote a check for the lease payments out of one account and deposited the payment into another ACCT account which the ACCT utilizes for the related entity.

We noted that the subrecipient's noncompliance affected this program's ability to comply with Allowable Costs/Cost Principle requirements as stated in the OMB Circular A-133.

We recommended that the program issue a management decision on these audit findings within six months after receipt of the respective subrecipient audit report. We also recommended that the program ensures that the subrecipient takes timely and appropriate corrective action on the audit findings noted.

Status

Resolved. In the current year we noted that ACCT still had an allowable cost finding for improper reimbursement of lease payments to a related entity. However, as management corrected the issue within six months of the audit report, we will consider this finding resolved. As ACCT resolved all other prior year findings related to allowable costs, it appears that the appropriate monitoring is being performed by the HIV Care program. Consequently, this finding will not carry forward.

Finding No. 07-08: Equipment Management

Per ACCT's Circular A-133 audit report for the year ended June 30, 2006, which was prepared by another auditor and received by the HIV Care program in October 2007, we noted that ACCT does not maintain a perpetual detailed record of equipment, nor inventory equipment at least once every two years.

We noted that the subrecipient's noncompliance affects this program's ability to comply with Equipment Management requirements as stated in OMB Circular A-133.

We recommended that the program issue a management decision on these audit findings within six months after receipt of ACCT's audit report. We also recommended that the HIV Care program ensures that the subrecipient takes timely and appropriate corrective action on the audit findings noted.

Status

Resolved. No instances of noncompliance by the subrecipient were noted in the current year, as ACCT no longer has equipment. Consequently, this finding will not carry forward.

Finding No. 07-09: Subrecipient Monitoring

During our testing of subrecipient monitoring in the prior year, we noted the subrecipient did not submit its OMB Circular A-133 audit report for fiscal year 2006 in a timely basis. We note the HIV Care program failed to communicate a need for the timely submittal of the A-133 report. This failure to communicate federal guidelines indicates a deficiency of the HIV Care program's subrecipient monitoring process.

We recommended that the HIV program communicate federal guidelines in writing to the subrecipient and work with the subrecipient to ensure all federal requirements are met.

We noted that the subrecipient subsequently obtained an audit in accordance with OMB Circular A-133 for its fiscal years ended June 30, 2006 and 2007. The Department received the audit reports in October and November 2007, respectively. Numerous findings were reported in both audit reports. We recommended that the HIV program issue its management decision within six months of receiving the reports.

Status

Resolved. We noted that the HIV Care program was in compliance with subrecipient monitoring requirements in fiscal 2008. Consequently, this finding will not carry forward.

Finding No. 07-10: Equipment Management

During our prior year testing of compliance over equipment management for the program listed above, we noted that the NCPC program did not update the FAIS records to ensure additions, transfers, and disposals were properly reflected in a timely manner. This is a violation of the State's equipment management policies and procedures established in the State Inventory Manual.

We recommended that management of the Department ensure that all divisions and programs adhere to the State's established policies and procedures over equipment management in order to comply with federal and State regulations.

Status

Resolved. We noted that the program's FAIS records were properly updated in a timely matter, as the 17B report was filed before the due date for fiscal year 2008. In addition, we confirmed that the prior year 17B was subsequently filed in 2008. Consequently, this finding will not carry forward.

Finding No. 07-11: Eligibility

The program allows women to self-certify as to their eligibility for the program on the "Statement of Eligibility to Participate." The certification is often the program's only evidence of participants' eligibility to receive benefits from this grant and is acceptable evidence, per discussion with DHHS program personnel. Patient data is compiled and tracked in the CAST data collection system and submitted to the Centers for Disease Control ("CDC") for compliance monitoring purposes. During our testing for compliance with eligibility requirements in the prior year, we noted the following matters:

- For 1 out of 40 patient files tested, the "Statement of Eligibility to Participate" did not include the patient's date of birth;
- For 1 out of 40 patient files tested, the "Statement of Eligibility to Participate" did not include the patient's average monthly income; and
- For 1 out of 40 patient files tested, the incorrect birth dates for the patients were documented in the "Statement of Eligibility to Participate".

We recommended that the NCPC Branch ensure that service providers obtain complete and accurate Statements of Eligibility to Participate forms from patients. Program personnel should also independently review the certifications for timely completion and compliance with eligibility requirements.

Status

Resolved. Based on testing performed in the current year, we did not note any exceptions during our test of the eligibility compliance requirements for the NCPC program. All the noted exceptions that occurred in the prior year were remedied and there were no instances of any other exceptions during the current year. Consequently, this finding will not carry forward.

Finding No. 06-08: Cash Management

During our prior year review of the Department's cash management procedures, we noted that we could not verify whether DAGS disbursed funds from federal sources within three business days after the Department drew down the funds which is in accordance with the Cash Management Improvement Act Regulations & Guidance 31 CFR 205 (Final Rule). We also noted that the Department was not calculating or remitting any interest earnings attributable to these untimely disbursements. The delays were caused by the State's payment process that requires payments by all State departments to be processed through DAGS resulting in processing delays.

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

We recommended that the Department work with DAGS to ensure timely disbursement of federal funds. In addition, we recommended that the Department calculate and remit any interest liability to the federal government, if necessary, in accordance with federal regulations.

Status

Unresolved. We continued to find that neither the WIC nor CDC programs are calculating interest on the funds drawn down in advance.

We were also still unable to verify whether the Department and DAGS complied with the Cash Management Improvement Act's requirement to minimize the time between the transfer of funds from the U.S. Treasury and disbursement by the Department.

Finding No. 05-09: Allowable Costs – Purchase Requisition Approvals

During our prior year testing of purchasing controls for the Substance Abuse Prevention and Treatment Block Grant ("SAPT") program, we noted that approval of purchase requisitions by supervisors was inconsistently evidenced for the Alcohol and Drug Abuse Division. The inconsistent approval was due to the lack of a formal requirement to evidence approval of purchase requisitions.

We recommended that the program (and Department) implement a formal requirement for supervisors to evidence their approval of all purchase requisitions to ensure compliance with OMB Circular A-87 and internally documented fiscal procedures.

Status

Resolved. The program established a formal process for purchase orders in March 2007. Consequently, this finding will not carry forward.

Finding No. 05-14: Earmarking – Quality Management Program

During our prior year testing of the HIV Care Formula Grants program, we noted that the program did not have a formalized quality management program in place to monitor whether program activities were consistent with the most recent Public Health Service ("PHS") guidelines, as required under the grant agreement. However, we did note that program personnel were performing quality management activities on an informal basis. We were informed that the Department's Quality Assurance and Evaluation Committee has developed a draft Quality Assurance Plan, which documents the standards for case management service delivery and monitoring of service delivery. The plan was expected to be finalized and implemented in late 2006.

We recommended that the Department finalize and implement its Quality Assurance Plan to ensure compliance with PHS guidelines and enable the Department to effectively monitor its HIV Care programs.

Status

Resolution ongoing. Due to staffing constraints, the program was unable to fully implement their Quality Assurance Plan. Per discussion with program personnel, we understand that the Quality Assurance Plan was implemented in fiscal year 2009.

Corrective Action Plan

LINDA LINGLE
GOVERNOR OF HAWAII

CHIYOME LEINAALA FUKINO, M.D.
DIRECTOR OF HEALTH

STATE OF HAWAII
DEPARTMENT OF HEALTH
P.O. BOX 3378
HONOLULU, HAWAII 96801-3378

In reply, please refer to:
File:

ASO-F-5352

May 27, 2009

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

Dear State Auditor:

Attached are the Department of Health's Corrective Action Plan for the findings on the audit report for fiscal year 2008 and comments regarding prior year findings.

We appreciate the opportunity to comment on the audit report.

Sincerely,

Chiyome Leinaala Fukino, M.D.
Director of Health

Attachment

II. Financial Statement Findings

Finding Nos. 08-01 and 07-01: Restatement of Beginning Fund Balance/Net Assets (Material Weakness)

Finding and Cause and Effect

During our current year financial statement audit of the State of Hawaii, Department of Health (the "Department"), we identified an accounting error in the Department's basic financial statements as of and for the year ended June 30, 2007 due to the lack of oversight by fiscal management over the accrual of liabilities. Accordingly, the Department restated its opening net assets attributable to governmental activities and governmental funds' fund balances as of July 1, 2007 to correct these errors which relate to the accounting for appropriations and amounts due to the State of Hawaii, Department of Human Services ("DHS").

Corrective Action Plan

The Department has already restated the beginning balances in the financial statements for the year ended June 30, 2008 to correct the error identified. The departmental fiscal officer will assist the programs in accruing the reimbursements due to and from the DHS. The Department is working out a plan with the DHS to determine how the $4.15 million will be returned to the DHS for the repayment required by the Child and Adolescent Mental Health Division ("CAMHD") to the Med-QUEST Division ("MQD") of the DHS for the Federal fiscal years 2004 – 2007.

Person Responsible

ASO Fiscal Officer

Anticipated Date of Completion

June 30, 2009

Finding No. 08-02 and 07-02: Capital Assets (Material Weakness)

Finding and Cause and Effect

In prior year audits (starting with the fiscal year 2004 audit), it was noted that the Department did not properly report capital purchases in accordance with the State's policies and procedures. It was recommended that the Department report capital asset additions to the State Procurement Office ("SPO") in a timely manner in accordance with the DAGS – SPO – Inventory Management Branch Training Manual ("State Inventory Manual"). It was also recommended that the Department implement a procedure for property custodians to reconcile quarterly equipment acquisitions in FAMIS to the DAGS computerized inventory reports ("MDB reports") from the State's Fixed Asset Inventory System ("FAIS") in a timely manner.

During our past audits, we noted that the Department implemented procedures to assist the individual programs in recording capital purchases to FAIS in a timely manner by sending each program a detailed listing of all fixed assets purchases recorded to FAMIS on a quarterly basis. The programs are responsible for reconciling this listing to the FAIS inventory reports. We continued to note instances where capital assets were purchased, but not reported in FAIS, resulting in an audit adjustment.

Corrective Action Plan

Currently, SPO transmits the quarterly listing of fixed assets and the FAIS inventory reports to the ASO. The ASO then distributes these documents to the various divisions, staff offices and attached agencies to reconcile the listings to the FAIS inventory reports. SPO informed the Department that they distribute these documents directly to the divisions for all other departments and are willing to do the same for this Department. Therefore, the Department will be requesting approval from the SPO to have SPO send the quarterly list of fixed asset expenditures recorded in FAMIS as well as the FAIS inventory reports directly to each division, staff office or attached agency. These programs will then reconcile the listings to the FAIS inventory reports. After completing the reconciliations and resolving any discrepancies, the divisions, staff offices and attached agencies will send the completed reports to SPO. The ASO will continue to assist the programs to ensure fixed assets are properly recorded in accordance with the policies and procedures in the DAGS-SPO-Inventory Management Branch Training Manual.

Person Responsible

ASO Procurement and Supply Specialist and the Public Health Administration Officer for each program

Anticipated Date of Completion

July 1, 2009

Finding No. 08-03: Department of Human Services Transactions (Material Weakness)

Finding and Cause and Effect

Certain of the Department's programs are eligible to receive Medicaid funds for the federal share of the services they provide if the services are provided to Medicaid eligible patients in State programs. However, in prior year audits, it was noted that the Department had difficulty determining the amounts due to and due from DHS related to Medicaid funds.

We noted that there are several different programs within the Department that receive Medicaid funds to pay for the federal share of the Medicaid eligible patients that are seen by the providers. Each program has a different way of tracking the funds that are received from DHS, and each program receives different amounts of Medicaid funds depending on how the programs are set up with DHS. These differences could cause the data provided to be misstated as the Department might assume the information provided is one thing, but the amounts on the schedule might represent something completely different.

Because of these issues, the Department is continually struggling with DHS as to how much money it is entitled to receive. Also, because DHS did not reconcile its payment data to the encounters data, it overpaid the Department and now the Department must find a way to return the overpayments to DHS.

The payable and receivable information is required to be maintained on a full accrual basis for the Department's department-wide statement of net assets.

Corrective Action Plan

The Department will require the programs that receive Medicaid reimbursements to submit a report to the Administrative Services Office (ASO) showing the accounts receivable balances on a monthly basis. The ASO Accounting is developing a reporting format to be used by these programs to ensure standardized reporting.

Person Responsible for Corrective Action

ASO Accountant V and Public Health Administrative Officers of programs receiving Medicaid reimbursements

Anticipated Date of Completion

June 30, 2009

Section III. Federal Award Findings and Questioned Costs

Finding Nos. 08-04 and 07-03: Reporting (Material Weakness)

Finding and Cause and Effect

During our current year audit, we also noted the following instances of noncompliance with federal reporting requirements for the HIV Care program:

- Maintenance of Effort Report: The amount of State expenditures for FY 2007 was incorrectly reported as $4,990,742 compared to $4,591,930 in actual expenditures.

  The reporting errors for the Maintenance of Effort Report were partially caused by the erroneous inclusion of encumbrances. State effort should be measured solely by expenditures made in the fiscal year. Also, it is improper to limit the amount of expenditures reported in the current year to the amount reported in the prior year. Total expenditures for all years must be accurately reported. Reporting errors are also caused by the program not having formalized processes in place to monitor invoices and actual expenditures. Reports were prepared based on budgeted amounts and outdated reports resulting in inaccurate reports submitted to the federal government.

- The Annual Financial Status Reports, Standard Form ("SF")-269a was submitted approximately three months after the due date.

- The Final Annual Progress Report was submitted approximately one month after the due date.

Corrective Action Plan

In the Maintenance of Effort Report attached to the Ryan White HIV/AIDS Treatment and Modernization Act of 2006 Part B Grant Program application, the STD/AIDS Prevention Branch (SAPB) includes both actual expenditures as well as obligated amounts as part of the expenditures in the preceding year. Because invoices may be submitted up to twelve months after the grant expiration date, reporting only actual expenditures accrued up to the grant expiration date may result in a significant amount of expenditures not being included in the report to the awarding agency. This would result in an incomplete picture of HIV-related activities in Hawaii. Therefore, the SAPB reports both actual and obligated expenditures (in the form of encumbered amounts) to the awarding agency. Both are clearly labeled in the Maintenance of Effort worksheet.

Ryan White legislation specifically requires that:

> The State will maintain HIV-related activities at a level that is equal to not less than the level of such expenditures by the State for the one-year period preceding the fiscal year for which the State is applying to receive a grant under Part B.

The figures included in the Maintenance of Effort Report show that Hawaii is expending funds at a level that is equal to the prior year as is required by the Ryan White Care Act. The SAPB now uses financial information from DataMart reports for the required reporting period.

The Department has already implemented a plan whereby programs submit a Financial Status Report (FSR) request to the ASO to ensure the timely submittal of SF-269 reports.

Person Responsible for Corrective Action

ASO Fiscal Officer, Public Health Administrative Officers of affected programs and SAPB Planner

Anticipated Date of Completion

July 1, 2009

Finding Nos. 08-05 and 07-04: Eligibility (Material Weakness)

Finding and Cause and Effect

During our current year audit, we tested 40 ADAP patient records and 10 H-COBRA patient records. Due to the Department maintaining insufficient supporting documents, we noted the following instances of noncompliance with eligibility requirements for the HIV Care program:

- For 3 out of 40 patient records tested, the program was unable to provide documentation to evidence the eligibility (estimated value of liquid assets) of the ADAP participants.

- For 8 out of 10 patient records tested, the program was unable to provide adequate documentation to evidence the eligibility (estimated value of liquid assets) of H-COBRA participants.

- For 8 out of 40 ADAP patient records tested, the program was unable to provide documentation to evidence that 6-month recertifications were performed.

We noted that the program has taken steps to remediate this recurring finding from prior years (Finding No. 07-04, No. 06-02 and No. 05-02). However, as the program is still in the process of implementing our recommendations, the program did not meet the Eligibility requirements in fiscal 2008.

Corrective Action Plan

Two of the three cited instances of noncompliance relate to documentation of liquid assets. As noted by the auditors, the program eligibility requirement related to liquid assets was in place during only the first half of the audit period and the State waived the requirement for documenting the client's estimated value of liquid assets effective January 1, 2008. This change to the eligibility requirement was made, in part, because it has proven impractical to document liquid assets in a way which is thorough and exhaustive. As a result of this change, documentation of liquid assets will not be a factor in future audits.

The remaining cited instance of noncompliance relates to 6-month recertifications of HDAP participants. Of the 40 HDAP patient records tested, the program was able to provide documentation of 6-month recertification for 20 patients. Two (2) patients were discharged from the program prior to the end of the audit period and were overdue for recertification at the time of discharge. The remaining 6 patients were overdue for recertification as of the end of the audit period and the program had been making efforts to recertify each of them. The program closely tracks recertification but must rely on participants themselves to complete the recertification process (by providing requested documentation, etc.). It can be difficult to ensure that participants complete recertification promptly within 6 months. Non-compliant clients could be terminated from the program but disrupting a client's access to HIV medications can have serious harmful medical effects and would be counter to the priority of the program which is to retain individuals in treatment. Thus, the program continues to provide medications while recertification is in process. The program will work with case managers to ensure recertification on a timely basis.

Person Responsible for Corrective Action

Supervisor HIV Medical Management Services

Anticipated Date of Completion

July 1, 2009

Finding Nos. 08-06 and 07-05: Earmarking (Material Weakness)

Finding and Cause and Effect

During our current year audit of the HIV Care program, we noted the following instances of noncompliance with earmarking requirements for amounts expended on women, infants, children and youth during the grant period. The amount expended was $303,360, which was $106,165 less than required by terms of the applicable grant. The shortfall was due primarily to the fact that the need for services for women, infants and children is less that the amount of funds available.

Corrective Action Plan

Levels of expenditures reported in the Women, Infants, Children, and Youth reports are based on actual expenditures. Actual expenditures reflect services provided in response to actual need. As the payor of last resort, Ryan White funds are accessed only after all other sources of funds have been exhausted, which results in requests for services at levels lower than the levels of resources that have been required to be set aside.

Program personnel will continue to ensure that providers are aware of the funding available for women, infants, children and youth. The Program will monitor expenditures for these specific purposes.

Person Responsible for Corrective Action

SAPB Planner

Anticipated Date of Completion

July 1, 2009

Finding No. 08-07: Equipment Management

Finding and Cause and Effect

During our current year audit, we noted one instance of theft occurred during the prior fiscal year at the Centers for Disease Control and Prevention Investigations and Technical Assistance Program – National Cancer Prevention and Control Branch ("NCPC") program. We noted that the item that was stolen or was misplaced was a laptop computer that may have contained

sensitive client information, because of the type of services the program provides to individuals, and the access to information that may have been stored on the computer.

Corrective Action Plan

The CDMCB is acutely aware of the sensitive nature of the personal information dealt with by the program. This sensitive information is electronically stored in the CaST system on the desktop computer of the Data Support User Technician (DPUST); the work performed by the DPUST which involves this sensitive information is done at the desktop computer. This computer is turned off when the DPUST leaves his work station for extended periods and is password protected. Also, while it is indeed possible to transfer this sensitive information to a laptop computer, there is no reason to do so.

With regard to the security of the equipment, the portable equipment (laptops, projectors, etc.) of both the Breast and Cervical Cancer Control Program and the Comprehensive Cancer Control Program is stored in locked cabinets. The equipment for the Breast and Cervical Cancer Control Program is in the custody of the Public Health Administrative Officer; the equipment for the Comprehensive Cancer Control Program is in the custody of the Office Assistant. A "sign out" sheet is stored with each program's equipment.

Person Responsible for Corrective Action

CHD Public Health Administrative Services Officer

Anticipated Date of Completion

December 2007

Finding No. 08-08: Certification for Fully Federally Funded Employees

Finding and Cause and Effect

During our testing of the allowability compliance requirement for the Public Health Preparedness and Response for Bioterrorism program and the HIV Care Formula Grants Program, we noted that both programs had employees that spent 100 percent of their time on the grant but did not obtain semi-annual certifications signed by the employees or (per requirement stated below) their supervisors, confirming that they worked solely on grant related activities in accordance with OMB Circular A-87 guidelines for payroll.

Although proper controls are in place to ensure that only employees that actually spend time on grant related activities actually charged time to the program's appropriation, there is no documentation maintained to confirm that this control was in place and that the time allocated to the program for these employees was periodically reviewed by the employees or their supervisors.

Corrective Action Plan

The Bioterrorism Preparedness and Response Branch (BPRB) implemented federal funding certification procedures effective August 10, 2008 for employees spending 100 percent of their time on activities funded by and related to the Public Health Preparedness and Response for Bioterrorism Cooperative Agreement (PHPRBCA). Beginning with the semi-annual certification period ending February 9, 2009, all active employees that are 100 percent PHPRBCA-funded signed and submitted certifications covering the first six (6) months of the grant performance period prior to the February 28, 2009 due date.

The STD/AIDS Prevention Branch (SAPB) will implement a procedure to obtain semi-annual certifications from all employees that are 100 percent HIV Care Formula Grant-funded to certify that they spend 100 percent of their time on the grant, confirming that they actually worked solely on grant-related activities.

Person Responsible for Corrective Action

For BPRB -- BPRB Chief and BPRB Fiscal Specialist
For SAPB – Public Health Administrative Officer

Anticipated Date of Completion

For BPRB – February 2009
For SAPB – July 1, 2009

Finding No. 06-08: Cash Management

During our prior year review of the Department's cash management procedures, we noted that we could not verify whether DAGS disbursed funds from federal sources within three business days after the Department drew down the funds which is in accordance with the Cash Management Improvement Act Regulations & Guidance 31 CFR 205 (Final Rule). We also noted that the Department was not calculating or remitting any interest earnings attributable to these untimely disbursements. The delays were caused by the State's payment process that requires payments by all State departments to be processed through DAGS resulting in processing delays.

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

We recommended that the Department work with DAGS to ensure timely disbursement of federal funds. In addition, we recommend that the Department calculate and remit any interest liability to the federal government, if necessary, in accordance with federal regulations.

Corrective Action Plan

The Department is continuously working with the Department of Accounting and General Services (DAGS) and the state Department of Budget and Finance (B&F) to establish a faster process of depositing and disbursing federal money to ensure compliance with Federal Regulations as well as to meet the state department's treasury deposit and fiscal accounting

responsibilities. The Department has internally made changes to the procedures to ensure the paperwork required to record the deposits and make payments are processed as soon as possible. Without changes to the B&F and DAGS processes, the Department cannot ensure compliance to the Federal Regulations.

Person Responsible for Corrective Action

Administrative Services Officer and Fiscal Officer

Anticipated Date of Completion

September 2008

Finding No. 05-14: Earmarking – Quality Management Program

During our prior year testing of the HIV Care Formula Grants program, we noted that the program did not have a formalized quality management program in place to monitor whether program activities were consistent with the most recent Public Health Service ("PHS") guidelines, as required under the grant agreement. However, we did note that program personnel were performing quality management activities on an informal basis. We were informed that the Department's Quality Assurance and Evaluation Committee has developed a draft Quality Assurance Plan, which documents the standards for case management service delivery and monitoring of service delivery. The plan was expected to be finalized and implemented in late 2006.

We recommended that the Department finalize and implement its Quality Assurance Plan to ensure compliance with PHS guidelines and enable the Department to effectively monitor its HIV Care programs.

Corrective Action Plan

SAPB finalized the Quality Management Plan in May 2008 and the plan was implemented in August 2008.

Person Responsible for Corrective Action

SAPB Branch Chief

Anticipated Date of Completion

August 2008