

**Department of Health
State of Hawaii**

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

Submitted by

**THE AUDITOR
STATE OF HAWAII**



A Hawaii Limited Liability Partnership

March 25, 2020

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

Dear Mr. Kondo:

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

OBJECTIVES OF THE AUDIT

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

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

SCOPE OF THE AUDIT

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

ORGANIZATION OF THE REPORT

This report is presented in six parts as follows:

- Part I – The basic financial statements and related notes to the financial statements of the Department as of and for the fiscal year ended June 30, 2019, and our opinion on the basic financial statements.
- Part II – Our report on internal control over financial reporting and on compliance and other matters.
- Part III – Our report on compliance for each major program and internal control over compliance.
- Part IV – The schedule of findings and questioned costs.
- Part V – The summary schedule of prior audit findings.
- Part VI – Corrective action plan as provided by the Department.

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

Sincerely,



Wilcox Choy
Partner

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PART I
FINANCIAL SECTION



A Hawaii Limited Liability Partnership

Independent Auditor's Report

Office of the Auditor
State of Hawaii

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Department of Health, State of Hawaii (Department), as of and for the fiscal year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Department as of June 30, 2019, and the respective changes in financial position, and, where applicable, its cash flows, and budgetary comparisons for each major fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 10 through 21 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements. The schedule of expenditures of federal awards, as required by the Office of Management and Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2020 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

KMH LLP

KMH LLP

Honolulu, Hawaii

March 25, 2020

Department of Health State of Hawaii

Management Discussion and Analysis
June 30, 2019

This Management's Discussion and Analysis (MD&A) presents a narrative overview and analysis of the financial activities and performance of the Department of Health, State of Hawaii (the Department) during the fiscal year that ended on June 30, 2019. Please read it in conjunction with the Department's financial statements and the related notes to the basic financial statements (which follow this section). The following is a brief description of the contents of those three sections:

Overview of the Basic Financial Statements

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

Government-Wide Financial Statements

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

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

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

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

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

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Management Discussion and Analysis
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Fund Financial Statements

The fund financial statements include the Department's: (1) governmental funds, for which activities are funded primarily from appropriations from the State of Hawaii, beverage container deposit program collections, mental health and substance abuse, 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, Hawaii tobacco settlement special fund, deposit beverage container deposit special fund and mental health substance abuse special fund, comparing the excess of revenues over expenditures presented on a budgetary basis to the excess (deficiency) of revenues over expenditures presented in conformity with U.S. generally accepted accounting principles (GAAP) as presented in the governmental fund financial statements.

To reiterate, the Department has three types of funds:

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

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

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

Notes to the Basic Financial Statements

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

Government-wide Financial Highlights

The Department's total net position increased from \$1,063.4 million as of June 30, 2018 to \$1,123.5 million as of June 30, 2019, or by approximately \$60.1 million. The total increase in net position was attributed to increases in the Department's governmental activities net position of \$32.8 million and business-type activities' net position of \$27.3 million during the year.

The Department's governmental activities reported an aggregate increase in net position of approximately \$32.8 million during the year totaling \$377.9 million at June 30, 2019. Note that this is based on the net position at June 30, 2018 of \$345.1 million.

The Department's proprietary funds, consisting of two revolving loan funds, reported an increase in net position of \$27.3 million for fiscal year (FY) 2019. Total net position was \$718.3 million at June 30, 2018 compared to \$745.6 million at June 30, 2019.

Department of Health State of Hawaii

Management Discussion and Analysis
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Government-Wide Financial Analysis

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

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

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Current assets	\$ 415,650	\$ 390,904	\$ 248,617	\$ 239,687	\$ 664,267	\$ 630,591
Capital assets	110,402	81,320	1,429	440	111,831	81,760
Loans receivable, noncurrent	-	-	507,895	489,945	507,895	489,945
Total assets	526,052	472,224	757,941	730,072	1,283,993	1,202,296
Deferred outflows of resources	-	-	2,128	2,196	2,128	2,196
Current liabilities	129,737	108,543	668	437	130,405	108,980
Long term liabilities	18,366	18,576	13,137	13,026	31,503	31,602
Total liabilities	148,103	127,119	13,805	13,463	161,908	140,582
Deferred inflows of resources	-	-	664	541	664	541
Net position						
Net investment in capital assets	110,402	81,320	1,428	440	111,830	81,760
Restricted	63,928	59,789	744,172	717,824	808,100	777,613
Unrestricted	203,619	203,996	-	-	203,619	203,996
Total net position	\$ 377,949	\$ 345,105	\$ 745,600	\$ 718,264	\$ 1,123,549	\$ 1,063,369

As noted earlier, changes in net position may serve over time as a useful indicator of the Department's financial position. As of June 30, 2019, the Department's total net position was approximately \$1,123.5 million.

Department of Health State of Hawaii

Management Discussion and Analysis
June 30, 2019

At June 30, 2019, in addition to equity in cash and cash equivalents in the state treasury approximating \$588.6 million, the Department had total loans receivable from county governments in the amount of \$550.1 million arising from its two revolving loan funds. The Department had total liabilities of \$161.9 million at June 30, 2019 of which \$15.0 million relates to accrued wages and employee benefits payable. Approximately \$49.6 million in liabilities relate to vouchers and contracts payable. At June 30, 2019, restricted net position was \$808.1 million. The restrictions arise from legal and contractual agreements.

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

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Revenue:						
Program revenues:						
Charges for services	\$ 22,499	\$ 22,538	\$ 5,692	\$ 5,870	\$ 28,191	\$ 28,408
Operating grants and contributions	127,517	127,948	26,813	6,916	154,330	134,864
General revenues:						
State appropriated funds	492,535	475,880	-	-	492,535	475,880
Non-imposed fringe benefits	90,812	79,817	-	-	90,812	79,817
Hawaii tobacco settlement special fund	34,452	25,689	-	-	34,452	25,689
Environmental fees and taxes	50,494	51,014	-	-	50,494	51,014
Total revenues	<u>818,309</u>	<u>782,886</u>	<u>32,505</u>	<u>12,786</u>	<u>850,814</u>	<u>795,672</u>
Expenditures:						
General administration	50,079	47,766	-	-	50,079	47,766
Environmental health administration	72,373	64,749	8,871	7,612	81,244	72,361
Behavioral health services administration	385,373	338,979	-	-	385,373	338,979
Health resources administration	284,000	278,105	-	-	284,000	278,105
Total expenditures	<u>791,825</u>	<u>729,599</u>	<u>8,871</u>	<u>7,612</u>	<u>800,696</u>	<u>737,211</u>
Excess before transfers	26,484	53,287	23,634	5,174	50,118	58,461
Transfers	6,361	(24,263)	3,702	3,733	10,063	(20,530)
Change in net position	32,845	29,024	27,336	8,907	60,181	37,931
Net position:						
Restatement adjustments	-	4,395	-	(3,473)	-	922
Beginning of year	345,104	311,686	718,264	712,830	1,063,368	1,024,516
End of year	<u>\$ 377,949</u>	<u>\$ 345,105</u>	<u>\$ 745,600</u>	<u>\$ 718,264</u>	<u>\$1,123,549</u>	<u>\$1,063,369</u>

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Governmental activities increased the Department's net position by \$32.8 million in FY 2019, which was a 9.5 percent increase from FY 2018. The overall increase in governmental activities is the result of higher revenues from several areas. General revenues of state appropriated funds increased by \$16.7 million and non-imposed fringe benefits increased by \$11 million.

Revenues of the Department's business-type activities, which increased by \$19.7 million from 2018, consist of the Department's environmental loan programs, one for water pollution control and the other for drinking water treatment. These revenues were generated from charges for services, program investment income, and federal assistance program funds as well as state matching funds. Charges for services consist primarily of administration loan fees and interest income on loans related to the Department's two revolving loan programs. The majority of the programs' investment income is from the Department's participation in the State Treasury Investment Pool System.

For the fiscal year ended June 30, 2019, business-type activities increased the Department's net position by \$27.3 million to \$745.6 million as compared to the fiscal year ended June 30, 2018.

Total government-wide expenditures for FY 2019 were \$800.7 million of which \$791.8 million was for governmental activities. As compared to FY 2018, total government-wide expenditures were \$737.2 million of which \$729.6 million was for governmental activities. Overall, the Department is organized into four major administrations.

The Department's Behavioral Health Services Administration expended 48.7 percent or \$385.4 million of departmental funds with an increase of \$46.4 million compared to FY 2018. 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;
- Alcohol and Drug Abuse Division (ADAD) which plans for and purchases substance abuse prevention and treatment services for adolescents and adults; and
- Developmental Disabilities Division (DDD) that services disabled clients in Hawaii while addressing the conditions of the Makin Settlement.

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Management Discussion and Analysis
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The Department's Health Resources Administration expended approximately 35.9 percent of Department funds. FY 2019 expenses for this Administration increased by \$5.9 million compared to FY 2018. Major programs in this administration include:

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

The Department's Environmental Health Administration is responsible for the management of the clean air, clean water, solid and hazardous waste, public health sanitation, vector control, and purity of food and drugs. It expended approximately 9.1 percent of the departmental funds with an increase of \$7.6 million expended versus FY 2018 on a government-wide basis. This administration also manages both the Water Pollution Control Revolving and the Drinking Water Treatment Revolving Loan Funds.

Finally, the Department's General Administration provides the overall leadership and oversight for the Department. It includes administrative support staff, three district health offices, and six administratively attached agencies. This administration expended approximately 6.3 percent of the departmental funds.

Department of Health State of Hawaii

Management Discussion and Analysis
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Governmental Funds Financial Analysis

The following table presents revenues and expenditures of the governmental funds for FY2019 and FY2018 (\$000):

	<u>2019</u>	<u>2018</u>
Revenues:		
State general fund allotments	\$ 492,535	\$ 475,880
Intergovernmental	108,849	114,609
Hawaii tobacco settlement special fund	34,452	25,689
Deposit beverage container deposit special fund	24,820	24,174
Non-imposed fringe benefits	90,812	79,818
Taxes, fees, fines and other	63,817	63,716
Investment income	4,164	1,913
	<u>819,449</u>	<u>785,799</u>
Expenditures:		
General administration	45,621	46,005
Environmental health	72,136	64,953
Behavioral health	383,804	337,270
Health resources	282,729	278,510
	<u>784,290</u>	<u>726,738</u>
Total expenditures	<u>784,290</u>	<u>726,738</u>
Excess of revenues over expenditures before transfers	<u>\$ 35,159</u>	<u>\$ 59,061</u>

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

During the fiscal year ended June 30, 2019, general fund revenues were \$577.4 million, including \$90.8 million for fringe benefits paid directly from the State general fund. General fund expenditures were \$579.3 million.

In FY 2019, the DBCDSF earned revenues of \$24.8 million from beverage container deposit administrative fees and unredeemed containers income. Of this amount received, \$18.5 million in expenditures were paid to redemption centers or utilized to fund the program. The fund collected \$49.4 million in deposits from distributors and repaid \$32.6 million in deposits to consumers during FY 2019.

Department of Health State of Hawaii

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

The WPCRF accounts for federal and state funds used to provide loans to county governments for the construction of wastewater treatment facilities and the repayment of principal, interest and fees from such loans and investment of such monies. During FY 2019, WPCRF received \$14.2 million and \$2.1 million of federal and state funds, respectively. WPCRF also disbursed \$40.8 million in loan proceeds and collected \$31.2 million in principal repayments in 2019. As compared to 2018, the fund collected \$0.2 million and \$2.1 million in federal and state contributions, respectively, disbursed \$19.2 million in loan proceeds, and collected \$32.9 million in principal payments.

The DWTRLF accounts for federal and state funds used to provide loans and other types of financial assistance to public water systems for drinking water infrastructure and the repayment of principal interest and fees from such loans and the investment of such monies. During FY 2019, DWTRLF received \$8.3 million and \$1.6 million of federal and state funds, respectively. DWTRLF also disbursed \$26.8 million in loan proceeds and collected \$13.8 million in principal repayments in 2019. As compared to 2018, the DWTRLF collected \$4.7 million and \$1.7 million in federal and state contributions, respectively, disbursed \$41.4 million in loan proceeds, and collected \$18.4 million in principal payments.

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

**Department of Health
State of Hawaii**

Management Discussion and Analysis
June 30, 2019

Budgetary Analysis

The following budget information relates to the general fund, deposit beverage container deposit special fund and mental health substance abuse special fund for 2019:

	Budgeted Amounts (\$000)		Actual on a Budgetary
	Original	Final	Basis (\$000)
General fund			
Revenues	\$ 493,432	\$ 501,996	\$ 492,293
Expenditures			
General administration	30,529	31,097	30,099
Environmental health	26,418	26,289	23,149
Behavioral health	290,347	296,489	294,181
Health resources	146,137	148,121	144,864
Deposit beverage container deposit special fund			
Revenues	71,174	71,212	57,447
Expenditures	71,174	71,212	63,867
Mental health substance abuse fund			
Revenues	11,610	11,610	9,440
Expenditures	11,610	11,610	6,399

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Management Discussion and Analysis
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The deposit beverage container program recognized revenues on a budgetary basis of \$57.4 million, which is based on the actual number of containers sold. In fiscal year 2018, there were 939.6 million containers sold. The amount of containers sold increased to 967.8 million in fiscal year 2019.

For the mental health substance abuse fund, the actual revenues received of \$9.4 million in FY 2019 were \$3 million more than the actual expenditures.

Capital Assets

As of June 30, 2019, the Department's governmental activities had invested approximately \$110.4 million (net of accumulated depreciation) in a broad range of capital assets. See Note 4 to the Department's basic financial statements for a description of capital assets activities for the fiscal year ended June 30, 2019.

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

	<u>2019</u>	<u>2018</u>
Land	\$ 1,018	\$ 1,018
Land improvements	3,305	3,305
Buildings and building improvements	234,803	196,863
Furniture and equipment	<u>28,609</u>	<u>26,493</u>
Total	267,735	227,679
Accumulated depreciation	<u>157,333</u>	<u>146,359</u>
Total capital assets, net	<u>\$ 110,402</u>	<u>\$ 81,320</u>

Currently Known Facts, Decisions, or Conditions

Although the State's economy improved since last fiscal year, the State continued its cautious approach regarding expenditures. Therefore, the Department has continued to evaluate and monitor the statewide service delivery system of the adult mental health program in order to improve service delivery and to contain operational costs.

In FY 2019, AMHD serviced 7,124 clients as compared to the 8,328 clients serviced in FY 2018. AMHD's Crisis Line of Hawaii (formerly known as Access Line) continues to provide short term confidential counseling, information about available help, and mobile support services in a crisis.

Department of Health State of Hawaii

Management Discussion and Analysis
June 30, 2019

In the developmental disabilities program, the number of clients increased by 11 clients in FY 2019 over 2018. In FY 2019, the program served 2,867 clients in the home and community-based waiver program as compared to 2,856 clients served in FY 2018. The previously reported number of clients in FY 2018 should be 2,856 instead of 2,956, which was discovered in a reconciliation review of FY 2018 data.

Further, the Federal Medical Assistance Percentage (FMAP) decreased from 54.93 percent to 54.78 percent for the period October 2017 to September 2018. The FMAP decreased from 54.78 percent to 53.92 percent effective October 2018 to September 2019.

And lastly, the WPCRf executed a total of five loan agreements for \$69.7 million during FY 2019. DWTRLF executed a total of three loan agreements for \$30.5 million during FY 2019. Further, the WPCRf expects to execute a total of four loan agreements in the amount of \$130.1 million while the DWTRLF expects to execute a total of three loan agreements for \$21.0 million in FY 2020.

**Department of Health
State of Hawaii**

Statement of Net Position
June 30, 2019

	Governmental Activities	Business-Type Activities	Total
<u>Assets and Deferred Outflows of Resources</u>			
Current Assets:			
Equity in Cash and Cash Equivalents and Investments in State Treasury	\$ 387,737,506	\$ 200,856,157	\$ 588,593,663
Receivables:			
Due from State Treasury	-	3,970,451	3,970,451
Due from other State agencies	382,821	-	382,821
Accrued interest and loan fees	3,859,341	1,440,103	5,299,444
Accounts receivable	455,553	1,270	456,823
Due from Federal government	6,580,963	117,866	6,698,829
Tobacco settlement receivable	16,633,750	-	16,633,750
Current maturities of loans receivable	-	42,231,560	42,231,560
Total current assets	415,649,934	248,617,407	664,267,341
Loans Receivable, net of current maturities	-	507,895,373	507,895,373
Capital Assets, net of accumulated depreciation	110,402,324	1,428,601	111,830,925
Total assets	526,052,258	757,941,381	1,283,993,639
Deferred Outflows of Resources	-	2,128,086	2,128,086
Total assets and deferred outflows of resources	<u>\$ 526,052,258</u>	<u>\$ 760,069,467</u>	<u>\$ 1,286,121,725</u>
<u>Liabilities, Deferred Inflows of Resources, and Net Position</u>			
Current Liabilities:			
Vouchers payable	\$ 49,318,762	\$ 286,612	\$ 49,605,374
Accrued wages and employee benefits payable	14,752,033	243,231	14,995,264
Unearned revenue	5,340,928	-	5,340,928
Accrued vacation, current portion	10,933,336	138,330	11,071,666
Workers' compensation liability	801,541	-	801,541
Due to other State agencies	45,613,148	-	45,613,148
Beverage container deposits	2,976,891	-	2,976,891
Total current liabilities	129,736,639	668,173	130,404,812
Accrued Vacation, net of current portion	18,366,584	292,324	18,658,908
Net Pension Liability	-	6,293,077	6,293,077
Net Other Postemployment Benefits Liability	-	6,551,114	6,551,114
Total liabilities	148,103,223	13,804,688	161,907,911
Deferred Inflows of Resources	-	664,368	664,368
Net Position:			
Net investment in capital assets	110,402,324	1,428,601	111,830,925
Restricted for:			
Loans	-	744,171,810	744,171,810
Trust fund programs	6,507,153	-	6,507,153
Medicaid programs	57,420,606	-	57,420,606
Unrestricted	203,618,952	-	203,618,952
Total net position	377,949,035	745,600,411	1,123,549,446
Total liabilities, deferred inflows of resources, and net position	<u>\$ 526,052,258</u>	<u>\$ 760,069,467</u>	<u>\$ 1,286,121,725</u>

See accompanying notes to the basic financial statements.

**Department of Health
State of Hawaii**

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

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:						
General administration	\$ 50,079,062	\$ 1,493,150	\$ 9,453,021	\$ (39,132,891)	\$ -	\$ (39,132,891)
Environmental health administration	72,373,113	8,788,896	11,576,821	(52,007,396)	-	(52,007,396)
Behavioral health services administration	385,372,863	2,191,319	18,933,229	(364,248,315)	-	(364,248,315)
Health resources administration	284,000,389	10,025,550	87,554,776	(186,420,063)	-	(186,420,063)
Total governmental activities	791,825,427	22,498,915	127,517,847	(641,808,665)	-	(641,808,665)
Business-type Activities --						
Environmental Health Loan Programs	8,870,519	5,692,623	26,812,734	-	23,634,838	23,634,838
Total Department	\$ 800,695,946	\$ 28,191,538	\$ 154,330,581	(641,808,665)	23,634,838	(618,173,827)
General Revenues:						
State general fund allotments, net				492,535,118	-	492,535,118
Nonimposed employee fringe benefits				90,811,875	-	90,811,875
Hawaii tobacco settlement special fund				34,451,958	-	34,451,958
Tobacco tax				23,233,095	-	23,233,095
Deposit beverage container fee				25,145,138	-	25,145,138
Environmental response tax				1,338,592	-	1,338,592
Advance glass disposal fee				776,623	-	776,623
Total general revenues				668,292,399	-	668,292,399
Transfers				6,360,824	3,702,000	10,062,824
Change in net position				32,844,558	27,336,838	60,181,396
Net Position at July 1, 2018				345,104,477	718,263,573	1,063,368,050
Net Position at June 30, 2019				\$ 377,949,035	\$ 745,600,411	\$ 1,123,549,446

See accompanying notes to the basic financial statements.

**Department of Health
State of Hawaii**

Balance Sheet – Governmental Funds
June 30, 2019

	<u>General</u>	<u>Deposit Beverage Container Deposit</u>	<u>Mental Health Substance Abuse</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:					
Equity in cash and cash equivalents and investments in State Treasury	\$ 101,565,179	\$ 49,805,196	\$ 51,327,895	\$ 185,039,236	\$ 387,737,506
Due from other State agencies	-	-	382,821	-	382,821
Accrued interest receivable	-	706,804	953,675	2,198,862	3,859,341
Accounts receivable	-	455,553	-	-	455,553
Due from Federal government	-	-	-	6,580,963	6,580,963
Total assets	<u>\$ 101,565,179</u>	<u>\$ 50,967,553</u>	<u>\$ 52,664,391</u>	<u>\$ 193,819,061</u>	<u>\$ 399,016,184</u>
Liabilities and Fund Balances					
Liabilities:					
Vouchers and contracts payable	\$ 27,513,180	\$ 3,033,878	\$ 40,964	\$ 18,730,740	\$ 49,318,762
Accrued wages and employee benefits payable	11,797,191	20,944	-	2,933,898	14,752,033
Unearned revenue	-	324,673	382,821	6,372,434	7,079,928
Due to other State agencies	-	-	-	28,979,398	28,979,398
Beverage container deposits	-	2,976,891	-	-	2,976,891
Total liabilities	<u>39,310,371</u>	<u>6,356,386</u>	<u>423,785</u>	<u>57,016,470</u>	<u>103,107,012</u>
Fund Balances:					
Restricted:					
Medicaid programs	-	-	52,240,606	5,180,000	57,420,606
Trust fund programs	-	-	-	6,507,153	6,507,153
Committed:					
Behavioral health services	-	-	-	3,328,343	3,328,343
Environmental health	-	-	-	34,090,621	34,090,621
General administration	-	-	-	4,620,578	4,620,578
Health resources	-	-	-	65,217,456	65,217,456
Capital projects activities	-	-	-	10,929,029	10,929,029
Deposit beverage container program	-	44,611,167	-	-	44,611,167
Tobacco settlement program	-	-	-	6,929,411	6,929,411
Assigned:					
Behavioral health services	28,469,511	-	-	-	28,469,511
Environmental health	-	-	-	-	-
General administration	18,829,899	-	-	-	18,829,899
Health resources	14,955,398	-	-	-	14,955,398
Unassigned	-	-	-	-	-
Total fund balances	<u>62,254,808</u>	<u>44,611,167</u>	<u>52,240,606</u>	<u>136,802,591</u>	<u>295,909,172</u>
Total liabilities and fund balances	<u>\$ 101,565,179</u>	<u>\$ 50,967,553</u>	<u>\$ 52,664,391</u>	<u>\$ 193,819,061</u>	<u>\$ 399,016,184</u>

See accompanying notes to the basic financial statements.

**Department of Health
State of Hawaii**

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

Total Fund Balances - Governmental Funds	\$ 295,909,172
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds	110,402,324
Compensated absences reported in the statement of net position do not require the use of current financial resources and therefore are not reported as liabilities in the governmental funds	(29,299,920)
Workers' compensation liability reported in the statement of net position does not require the use of current financial resources and therefore is not reported as a liability in the governmental funds	(801,541)
Other financing sources not collected within 60 days and therefore not available for current financial resources are reported as unavailable revenues in the governmental funds.	<u>1,739,000</u>
Net Position of Governmental Activities	<u><u>\$ 377,949,035</u></u>

See accompanying notes to the basic financial statements.

**Department of Health
State of Hawaii**

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

	<u>General</u>	<u>Deposit Beverage Container Deposit</u>	<u>Mental Health Substance Abuse</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
State-allotted appropriations	\$ 486,650,371	\$ -	\$ -	\$ 5,884,747	\$ 492,535,118
Intergovernmental	-	-	-	108,848,830	108,848,830
Nonimposed employee fringe benefits	90,772,944	970	-	37,961	90,811,875
Taxes, fees, fines and other	-	-	304,811	63,512,716	63,817,527
Investment income	-	621,742	1,064,449	2,477,398	4,163,589
Hawaii tobacco settlement	-	-	-	34,451,958	34,451,958
Deposit beverage container deposit	-	24,820,465	-	-	24,820,465
Total revenues	<u>577,423,315</u>	<u>25,443,177</u>	<u>1,369,260</u>	<u>215,213,610</u>	<u>819,449,362</u>
Expenditures:					
General administration	34,747,300	-	-	10,873,456	45,620,756
Environmental health	34,666,039	18,531,271	-	18,938,941	72,136,251
Behavioral health services	359,776,116	-	1,067,539	22,960,603	383,804,258
Health resources	150,109,666	-	-	132,618,896	282,728,562
Total expenditures	<u>579,299,121</u>	<u>18,531,271</u>	<u>1,067,539</u>	<u>185,391,896</u>	<u>784,289,827</u>
Excess (deficiency) of revenues over (under) expenditures	(1,875,806)	6,911,906	301,721	29,821,714	35,159,535
Other Financing Sources (Uses):					
Transfers in	-	-	49,553,795	53,128,554	102,682,349
Transfers out	(8,399,810)	-	(45,386,634)	(76,628,974)	(130,415,418)
Total other financing sources (uses)	<u>(8,399,810)</u>	<u>-</u>	<u>4,167,161</u>	<u>(23,500,420)</u>	<u>(27,733,069)</u>
Net change in fund balances	(10,275,616)	6,911,906	4,468,882	6,321,294	7,426,466
Fund Balances at July 1, 2018	<u>72,530,424</u>	<u>37,699,261</u>	<u>47,771,724</u>	<u>130,481,297</u>	<u>288,482,706</u>
Fund Balances at June 30, 2019	<u>\$ 62,254,808</u>	<u>\$ 44,611,167</u>	<u>\$ 52,240,606</u>	<u>\$ 136,802,591</u>	<u>\$ 295,909,172</u>

See accompanying notes to the basic financial statements.

**Department of Health
State of Hawaii**

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances to the Statement of Activities
For the Fiscal Year Ended June 30, 2019

Net Change in Fund Balances - Total Governmental Funds	\$ 7,426,466
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:	
Governmental funds report capital outlays as expenditures, however, in the statement of activities, the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.	(8,858,148)
Transfers in related to capital assets are not financial resources and, therefore, are not reported in the governmental funds.	37,940,310
Increase in compensated absences reported in the statement of activities do not require the use of current financial resources and therefore not reported as expenditures in the governmental funds.	(147,676)
Increase in workers' compensation liability reported in the statement of activities do not require the use of current financial resources and therefore is not reported as expenditures in the governmental funds.	5,350
Other financing sources reported on the statement of activities that do not provide or use current financial resources and are reported as unavailable revenues in the governmental funds, net of prior year transfers recorded in the current period.	<u>(3,521,744)</u>
Change in Net Position - Governmental Activities	<u>\$ 32,844,558</u>

See accompanying notes to the basic financial statements.

**Department of Health
State of Hawaii**

General Fund
Statement of Revenues and Expenditures - Budget and Actual
For the Fiscal Year Ended June 30, 2019

	<u>Original</u>	<u>Final</u>	<u>Actual on Budgetary Basis</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues --				
State allotments	\$ 493,432,159	\$ 501,995,971	\$ 492,293,364	\$ (9,702,607)
Expenditures:				
General administration	30,529,149	31,096,698	30,098,998	997,700
Environmental health	26,418,447	26,288,602	23,149,479	3,139,123
Behavioral health services	290,347,202	296,489,282	294,181,079	2,308,203
Health resources	146,137,361	148,121,389	144,863,808	3,257,581
	<u>493,432,159</u>	<u>501,995,971</u>	<u>492,293,364</u>	<u>9,702,607</u>
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to the basic financial statements.

**Department of Health
State of Hawaii**

Special Revenue Funds
Statement of Revenues and Expenditures - Budget and Actual
For the Fiscal Year Ended June 30, 2019

	<u>Actual on Budgetary Basis</u>				
	<u>Original</u>	<u>Final</u>	<u>Deposit Beverage Container Deposit Special Revenue Fund</u>	<u>Mental Health Substance Abuse</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues --					
Intergovernmental revenues:					
Deposit beverage container deposit	\$ 71,174,271	\$ 71,211,503	\$ 57,447,385	\$ -	\$ (13,764,118)
Mental health substance abuse	11,610,000	11,610,000	-	9,439,802	(2,170,198)
	<u>82,784,271</u>	<u>82,821,503</u>	<u>57,447,385</u>	<u>9,439,802</u>	<u>(15,934,316)</u>
Expenditures:					
Environmental health					
Deposit beverage container deposit	71,174,271	71,211,503	63,867,487	-	7,344,016
Behaviorial health services					
Mental health substance abuse	11,610,000	11,610,000	-	6,399,463	5,210,537
	<u>82,784,271</u>	<u>82,821,503</u>	<u>63,867,487</u>	<u>6,399,463</u>	<u>12,554,553</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (6,420,102)</u>	<u>\$ 3,040,339</u>	<u>\$ (3,379,763)</u>

See accompanying notes to the basic financial statements.

**Department of Health
State of Hawaii**

Statement of Net Position - Proprietary Funds
June 30, 2019

	Business-type Activities - Enterprise Fund		
	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Loan Fund	Total
Assets and Deferred Outflows of Resources:			
Current assets:			
Equity in cash and cash equivalents and investments in State Treasury	\$ 177,832,554	\$ 23,023,603	\$ 200,856,157
Loan fees receivable	395,573	627,963	1,023,536
Accrued interest receivable	314,153	102,414	416,567
Due from Federal Government	-	117,866	117,866
Due from State Treasury	3,395,230	575,221	3,970,451
Accounts receivable	-	1,270	1,270
Current portion of loans receivable	30,912,954	11,318,606	42,231,560
Total current assets	212,850,464	35,766,943	248,617,407
Loans receivable, net of current portion	329,882,524	178,012,849	507,895,373
Capital assets, net of accumulated depreciation	583,873	844,728	1,428,601
Total assets	543,316,861	214,624,520	757,941,381
Deferred outflows of resources	1,246,243	881,843	2,128,086
Total assets and deferred outflows of resources	<u>\$ 544,563,104</u>	<u>\$ 215,506,363</u>	<u>\$ 760,069,467</u>
Liabilities, Deferred Inflows of Resources, and Net Position:			
Current liabilities--			
Accounts payable and other accrued liabilities	\$ 219,710	\$ 448,463	\$ 668,173
Accrued vacation, net of current portion	150,537	141,787	292,324
Net pension liability	3,806,866	2,486,211	6,293,077
Net other postemployment benefits liability	3,736,978	2,814,136	6,551,114
Total liabilities	7,914,091	5,890,597	13,804,688
Deferred inflows of resources	111,274	553,094	664,368
Net Position:			
Net investment in capital assets	583,873	844,728	1,428,601
Restricted - expendable	535,953,866	208,217,944	744,171,810
Total net position	536,537,739	209,062,672	745,600,411
Total liabilities, deferred inflows of resources, and net position	<u>\$ 544,563,104</u>	<u>\$ 215,506,363</u>	<u>\$ 760,069,467</u>

See accompanying notes to the basic financial statements.

**Department of Health
State of Hawaii**

Statement of Revenues, Expenses and Changes in Net Position - Proprietary Funds
For the Fiscal Year Ended June 30, 2019

	Business-type Activities-Enterprise Fund		
	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Loan Fund	Total
Operating Revenues:			
Interest income from loans	\$ 1,197,517	\$ 441,378	\$ 1,638,895
Administrative loan fees	1,746,828	2,306,900	4,053,728
Total revenues	<u>2,944,345</u>	<u>2,748,278</u>	<u>5,692,623</u>
Expenses:			
Administrative	2,967,384	1,645,487	4,612,871
State program management	-	861,827	861,827
Water protection	-	665,045	665,045
Principal forgiveness for SRF	1,026,800	1,684,826	2,711,626
Small system technical assistance	-	19,150	19,150
Total expenses	<u>3,994,184</u>	<u>4,876,335</u>	<u>8,870,519</u>
Operating loss	<u>(1,049,839)</u>	<u>(2,128,057)</u>	<u>(3,177,896)</u>
Nonoperating Revenues and Expenses:			
State contributions	2,054,000	1,648,000	3,702,000
Federal contributions	14,228,752	8,335,818	22,564,570
Other interest income	3,551,154	686,471	4,237,625
Other income	6,021	4,518	10,539
Total nonoperating revenues and expenses	<u>19,839,927</u>	<u>10,674,807</u>	<u>30,514,734</u>
Change in net position	<u>18,790,088</u>	<u>8,546,750</u>	<u>27,336,838</u>
Net Position:			
Beginning of year	<u>517,747,651</u>	<u>200,515,922</u>	<u>718,263,573</u>
End of year	<u>\$ 536,537,739</u>	<u>\$ 209,062,672</u>	<u>\$ 745,600,411</u>

See accompanying notes to the basic financial statements.

**Department of Health
State of Hawaii**

Statement of Cash Flows - Proprietary Funds
For the Fiscal Year Ended June 30, 2019

	Business-type Activities - Enterprise Fund		
	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Loan Fund	Total
Cash Flows from Operating Activities:			
Payments to employees	\$ (2,032,670)	\$ (1,619,637)	\$ (3,652,307)
Payments to vendors	(149,483)	(881,417)	(1,030,900)
Net cash used in operating activities	<u>(2,182,153)</u>	<u>(2,501,054)</u>	<u>(4,683,207)</u>
Cash Flows from Noncapital Financing Activities:			
State contributions	2,054,000	1,648,000	3,702,000
Federal contributions	12,979,853	7,934,564	20,914,417
Net cash provided by noncapital financing activities	<u>15,033,853</u>	<u>9,582,564</u>	<u>24,616,417</u>
Cash Flows from Capital and Related Financing Activities--			
Purchase of equipment	(16,007)	(4,176)	(20,183)
Cash Flows from Investing Activities:			
Principal repayments on loans	31,188,915	13,793,998	44,982,913
Disbursement of loan proceeds	(40,785,536)	(26,772,262)	(67,557,798)
Interest income from loans	1,209,209	446,473	1,655,682
Administrative loan fees	1,705,176	2,319,803	4,024,979
Other interest income	1,285,596	316,280	1,601,876
Net cash used in investing activities	<u>(5,396,640)</u>	<u>(9,895,708)</u>	<u>(15,292,348)</u>
Net increase (decrease) in cash	7,439,053	(2,818,374)	4,620,679
Equity in Cash and Cash Equivalents and Investments in State Treasury:			
Beginning of year	170,393,501	25,841,977	196,235,478
End of year	<u>\$ 177,832,554</u>	<u>\$ 23,023,603</u>	<u>\$ 200,856,157</u>
Reconciliation of Operating Loss to Net Cash Used in Operating Activities:			
Operating loss	\$ (1,049,839)	\$ (2,128,057)	\$ (3,177,896)
Adjustments to reconcile operating income (loss) to net cash used in operating activities:			
Depreciation expense	89,745	239,272	329,017
Principal forgiveness for SRF	1,026,800	1,684,826	2,711,626
Interest income from loans	(1,197,517)	(441,378)	(1,638,895)
Administrative loan fees	(1,746,828)	(2,306,900)	(4,053,728)
In-kind contribution from the Environmental Protection Agency	600,000	-	600,000
Non-imposed fringe benefits	6,021	4,524	10,545
Change in assets, deferred outflows, liabilities, and deferred inflows:			
Due from State Treasury	3,830	-	3,830
Accounts receivable	-	41	41
Accounts payable and other accrued liabilities	(40,037)	216,077	176,040
Net deferred outflows/inflows of resources	45,947	145,166	191,113
Net pension liability	49,216	56,074	105,290
Net other postemployment benefits liability	30,509	29,301	59,810
Net cash used in operating activities	<u>\$ (2,182,153)</u>	<u>\$ (2,501,054)</u>	<u>\$ (4,683,207)</u>

See accompanying notes to the basic financial statements.

**Department of Health
State of Hawaii**

Fiduciary Funds
Statement of Fiduciary Net Position - Agency Funds
June 30, 2019

Assets --	
Cash and cash equivalents	<u>\$ 408,343</u>
Total assets	<u>408,343</u>
Liabilities --	
Due to others	<u>408,343</u>
Total liabilities	<u>408,343</u>
Net Position	<u>\$ -</u>

See accompanying notes to the basic financial statements.

Department of Health State of Hawaii

Notes to Financial Statements
June 30, 2019

1. Organization and Summary of Significant Accounting Policies

a. Financial Reporting Entity

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

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

The Department is part of the executive branch of the State of Hawaii (State). The financial statements of the Department are intended to present the financial position and the changes in financial position and cash flows, where applicable, of only that portion of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State as of June 30, 2019, and the changes in its financial position and cash flows, and budgetary comparisons, where applicable, for the year then ended in conformity with GAAP. The State Comptroller maintains the central accounts for all State funds and publishes the State's Comprehensive Annual Financial Report (CAFR), 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 CAFR but are not included in the Department's basic financial statements.

Department of Health State of Hawaii

Notes to Financial Statements
June 30, 2019

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

b. Government-wide Financial Statements

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

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

c. Fund Financial Statements

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

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

Department of Health State of Hawaii

Notes to Financial Statements
June 30, 2019

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

c. Fund Financial Statements (continued)

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

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

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

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

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

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

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

Department of Health State of Hawaii

Notes to Financial Statements
June 30, 2019

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

c. Fund Financial Statements (continued)

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

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

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

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

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

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

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

Department of Health State of Hawaii

Notes to Financial Statements
June 30, 2019

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

c. Fund Financial Statements (continued)

Proprietary Funds (Business-Type Activities)

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

Fiduciary Funds

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

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

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

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

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

Department of Health State of Hawaii

Notes to Financial Statements
June 30, 2019

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

e. 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 approximately \$380,000 is comprised of various Medicaid rehabilitation option claims.

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

f. Tobacco Settlement

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

During the year ended June 30, 2018, the State entered into an arbitration settlement with the Tobacco industry. As a result, arbitration credits of approximately \$16.2 million will be applied against the annual tobacco settlement payments through the year ending June 30, 2022.

The Department recognized approximately \$34.5 million in tobacco settlement revenues during the year ended June 30, 2019. In accordance with GASB Technical Bulletin No. 2004-1, *Tobacco Settlement Recognition and Financial Reporting Entity Issues*, the Department has recorded a tobacco settlement receivable for \$16.6 million in the statement of net position representing tobacco settlements earned for the period January 1, 2019 through June 30, 2019.

**Department of Health
State of Hawaii**

Notes to Financial Statements
June 30, 2019

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

g. Loans Receivable

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

h. Administrative Loan Fees

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

i. Capital Assets

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

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

**Department of Health
State of Hawaii**

Notes to Financial Statements
June 30, 2019

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

i. Capital Assets (continued)

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

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

j. Unearned Revenue

Unearned revenues at the government-wide level and fund level arise when the Department receives resources before it has a legal claim to them. In subsequent periods, when the revenue recognition criteria is met, or when the Department has a legal claim to the resources, the liability for unearned revenue is removed from the statement of net position and balance sheet, and revenue is recognized. Unearned revenues at June 30, 2019 consisted primarily of Federal grant funds for which all requirements had not yet been met.

k. Due to Other State Agencies

Payables to other State agencies primarily consist of funds allocated to other State agencies in accordance with the HTSSF and payables due to DHS for Medicaid payments. The balances as of June 30, 2019 are as follows:

Hawaii tobacco settlement special fund	\$ 43,167,943
Medicaid payable to DHS	1,704,964
Other	<u>740,241</u>
Total due to other State agencies	<u>\$ 45,613,148</u>

**Department of Health
State of Hawaii**

Notes to Financial Statements
June 30, 2019

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

l. Beverage Container Deposits and Container Fees

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

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

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

m. Deferred Outflows and Inflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until that time. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. The following is a breakdown of deferred outflows of resources and deferred inflows of resources as of June 30, 2019:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Related to Pensions	\$ 1,538,613	\$ (545,318)
Related to Other Post-retirement Benefits	589,473	(119,050)
	<u>\$ 2,128,086</u>	<u>\$ (664,368)</u>

Department of Health State of Hawaii

Notes to Financial Statements
June 30, 2019

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

n. Accrued Vacation

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

o. Accumulated Sick Leave

Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limit, but may be taken only in the event of illness and is not convertible to pay upon termination of employment. However, a State employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the State's Employees' Retirement System (ERS). At June 30, 2019, accumulated sick leave was approximately \$75.4 million.

p. 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.

q. Use of Estimates

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

Department of Health State of Hawaii

Notes to Financial Statements
June 30, 2019

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

r. 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.

s. Use of Restricted and Unrestricted Net Position

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

t. Nonmonetary Transactions

The Department receives noncash awards for one of its federally funded programs. The Department expended approximately \$14 million in vaccines during the fiscal year ended June 30, 2019.

u. Administrative Costs

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

Department of Health State of Hawaii

Notes to Financial Statements
June 30, 2019

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

v. Pensions

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

w. Other Post-employment Benefits (OPEB)

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

x. New Accounting Pronouncement

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

Department of Health State of Hawaii

Notes to Financial Statements
June 30, 2019

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 Department's funds and are prepared on the cash basis of accounting, except for the encumbrance of purchase orders and contract obligations (basis difference), which is a basis of accounting other than GAAP.

**Department of Health
State of Hawaii**

Notes to Financial Statements
June 30, 2019

2. Budgeting and Budgetary Control (continued)

Since budgetary basis differs from GAAP, budget and actual amounts in the budgetary comparison statements are presented on the budgetary basis. A reconciliation of revenues over expenditures (expenditures over revenues) on a budgetary basis at June 30, 2019, to excess of revenues over expenditures presented in conformity with GAAP follows:

	<u>General</u>	<u>DBCD</u>	<u>MHSA</u>	<u>Total</u>
(Deficiency) excess of revenues over (under) expenditures and other sources (uses) - actual on a budgetary basis	\$ -	\$ (6,420,102)	\$ 3,040,339	\$ (3,379,763)
Current year's appropriations encumbered at June 30, 2019	62,254,808	16,381,399	3,470,767	82,106,974
Expenditures for liquidation of prior fiscal year encumbrances	(429,784,174)	(6,369,193)	(2,642,489)	(438,795,856)
Total accruals and other adjustments	<u>365,653,560</u>	<u>3,319,802</u>	<u>(3,566,896)</u>	<u>365,406,466</u>
Net change in fund balances - GAAP basis	<u>\$ (1,875,806)</u>	<u>\$ 6,911,906</u>	<u>\$ 301,721</u>	<u>\$ 5,337,821</u>

3. Loans Receivable

At June 30, 2019, the proprietary funds loans receivable consisted of loans to county governmental units for the water pollution control and drinking water treatment programs. The loans require annual, semi-annual or quarterly payments, including interest at 0.00% to 2.96%, commencing not later than one year after project completion, notice to proceed, final loan disbursement, or three years after loan agreement date. Final payment is due not later than twenty years after project completion. During the year ended June 30, 2019, approximately \$1.7 million in loans was forgiven. All loans and advances forgiven were in accordance with required conditions. Accrued interest receivable on the loans amounted to approximately \$417,000 at June 30, 2019.

**Department of Health
State of Hawaii**

Notes to Financial Statements
June 30, 2019

3. Loans Receivable (continued)

The following is a schedule of principal payments due on loans for projects completed or in progress as of June 30, 2019:

<u>Year ending June 30,</u>	
2020	\$ 42,231,560
2021	43,721,118
2022	43,745,772
2023	42,497,395
2024	42,565,461
2025-2029	184,479,743
2030-2034	108,576,563
2035-2039	41,903,904
2040-2041	405,417
	<u>\$ 550,126,933</u>

As of June 30, 2019, the Department's proprietary funds were committed under existing loan agreements to the following counties:

	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Loan Fund	Total
City and County of Honolulu	\$ 12,333,482	\$ -	\$ 12,333,482
County of Maui	10,760,684	-	10,760,684
County of Hawaii	41,153,335	-	41,153,335
County of Kauai	8,600,000	-	8,600,000
Private Water Systems	-	1,000,000	1,000,000
	<u>\$ 72,847,501</u>	<u>\$ 1,000,000</u>	<u>\$ 73,847,501</u>

Department of Health State of Hawaii

Notes to Financial Statements
June 30, 2019

4. Capital Assets

Capital asset activity for governmental and business-type activities for the year ended June 30, 2019 was as follows:

	Balance July 1, 2018	Additions	Disposals	Balance June 30, 2019
Governmental Type Activities:				
Depreciable Assets:				
Land improvements	\$ 3,304,766	\$ -	\$ -	\$ 3,304,766
Building and improvements	196,863,284	38,680,844	(740,533)	234,803,595
Furniture and equipment	26,492,946	2,999,539	(883,631)	28,608,854
Total depreciable assets	<u>226,660,996</u>	<u>41,680,383</u>	<u>(1,624,164)</u>	<u>266,717,215</u>
Less Accumulated Depreciation:				
Land improvements	(2,500,670)	(96,123)	-	(2,596,793)
Building and improvements	(121,506,093)	(9,743,182)	-	(131,249,275)
Furniture and equipment	(22,352,151)	(1,900,468)	765,716	(23,486,903)
Total accumulated depreciation	<u>(146,358,914)</u>	<u>(11,739,773)</u>	<u>765,716</u>	<u>(157,332,971)</u>
Non-Depreciable Assets:				
Land	1,018,080	-	-	1,018,080
Governmental activities capital assets, net	<u>\$ 81,320,162</u>	<u>\$ 29,940,610</u>	<u>\$ (858,448)</u>	<u>\$ 110,402,324</u>
Business Type Activities				
Depreciable Assets:				
Furniture and equipment	\$ 2,570,074	\$ 1,317,981	\$ -	\$ 3,888,055
Less Accumulated Depreciation:				
Furniture and equipment	(2,130,437)	(329,017)	-	(2,459,454)
Business activities capital assets, net	<u>\$ 439,637</u>	<u>\$ 988,964</u>	<u>\$ -</u>	<u>\$ 1,428,601</u>
Total department capital assets, net	<u>\$ 81,759,799</u>	<u>\$ 30,929,574</u>	<u>\$ (858,448)</u>	<u>\$ 111,830,925</u>

**Department of Health
State of Hawaii**

Notes to Financial Statements
June 30, 2019

4. Capital Assets (continued)

Current period depreciation expense was charged to functions as follows:

	Governmental Activities	Business-Type Activities	Total
General administration	\$ 4,870,018	\$ -	\$ 4,870,018
Environmental health	645,619	329,017	974,636
Behavioral health	2,141,461	-	2,141,461
Health resources	4,082,675	-	4,082,675
Total	<u>\$ 11,739,773</u>	<u>\$ 329,017</u>	<u>\$ 12,068,790</u>

5. Accrued Vacation

The changes to the accrued vacation liability during the year ended June 30, 2019 were as follows:

	Governmental Activities	Business-Type Activities	Total
Balance at July 1, 2018	\$ 29,152,244	\$ 474,950	\$ 29,627,194
Increase	14,925,913	164,826	15,090,739
Decrease	<u>(14,778,237)</u>	<u>(209,122)</u>	<u>(14,987,359)</u>
Balance at June 30, 2019	29,299,920	430,654	29,730,574
Less: Current Portion	<u>10,933,336</u>	<u>138,330</u>	<u>11,071,666</u>
Noncurrent Portion	<u>\$ 18,366,584</u>	<u>\$ 292,324</u>	<u>\$ 18,658,908</u>

**Department of Health
State of Hawaii**

Notes to Financial Statements
June 30, 2019

6. Beverage Container Deposits

The changes to the beverage container deposit liability during the year ended June 30, 2019 were as follows:

Balance as of July 1, 2018	\$ 1,931,164
Increase: Deposits Received from distributors	49,427,484
Decrease: Payments made to recycling centers, net of refunds	(32,641,258)
Decrease: Unredeemed deposits recognized as revenue	<u>(15,740,499)</u>
Balance as of June 30, 2019	<u>\$ 2,976,891</u>

7. Changes in Assets and Liabilities of the Agency Funds

The agency funds are purely custodial (assets equal liabilities) and thus do not involve the measurement of results of operations. The changes in assets and liabilities of the agency funds for the fiscal year ended June 30, 2019, were as follows:

	<u>Balance July 1, 2018</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2019</u>
Assets --				
Cash	<u>\$ 410,590</u>	<u>\$ 77,887</u>	<u>\$ 80,134</u>	<u>\$ 408,343</u>
Liabilities --				
Due to Others	<u>\$ 410,590</u>	<u>\$ 77,887</u>	<u>\$ 80,134</u>	<u>\$ 408,343</u>

Department of Health State of Hawaii

Notes to Financial Statements
June 30, 2019

8. Non-imposed Employee Fringe Benefits

Non-imposed employee fringe benefits related to general and State special fund salaries are funded by the State. These costs, totaling approximately \$90.8 million for the fiscal year ended June 30, 2019, have been reported as revenues and expenditures of the Department's general and State special revenue funds.

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

9. Employee Benefit Plans

a. Employees' Retirement System

i. Plan Description

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

ii. Benefits Provided

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

Department of Health State of Hawaii

Notes to Financial Statements
June 30, 2019

9. Employee Benefit Plans (continued)

a. Employees' Retirement System (continued)

ii. Benefits Provided (continued)

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

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

Noncontributory Class

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

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

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

Department of Health State of Hawaii

Notes to Financial Statements
June 30, 2019

9. Employee Benefit Plans (continued)

a. Employees' Retirement System (continued)

ii. Benefits Provided (continued)

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

Contributory Plan for Employees Hired Prior to July 1, 2012

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

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

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

Department of Health State of Hawaii

Notes to Financial Statements
June 30, 2019

9. Employee Benefit Plans (continued)

a. Employees' Retirement System (continued)

ii. Benefits Provided (continued)

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

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

Contributory Plan for Employees Hired After June 30, 2012

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

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

Department of Health State of Hawaii

Notes to Financial Statements
June 30, 2019

9. Employee Benefit Plans (continued)

a. Employees' Retirement System (continued)

ii. Benefits Provided (continued)

Disability and Death Benefits - Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 50% of their average final compensation plus refund of contributions and accrued interest. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are 3% of average final compensation for each year of service for judges and elected officers and 1.75% of average final compensation for each year of service for police officers and firefighters and are payable immediately, without an actuarial reduction, at a minimum of 30% of average final compensation.

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

Hybrid Plan for Employees Hired Prior to July 1, 2012

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

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

Department of Health State of Hawaii

Notes to Financial Statements
June 30, 2019

9. Employee Benefit Plans (continued)

a. Employees' Retirement System (continued)

ii. Benefits Provided (continued)

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

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

Hybrid Plan for Employees Hired After June 30, 2012

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

Department of Health State of Hawaii

Notes to Financial Statements
June 30, 2019

9. Employee Benefit Plans (continued)

a. Employees' Retirement System (continued)

ii. Benefits Provided (continued)

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

iii. Contributions

Contributions are governed by HRS Chapter 88 and may be amended through legislation. The employer rate is set by statute based on the recommendations of the ERS actuary resulting from an experience study conducted every five years. Since July 1, 2005, the employer contribution rate is a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liabilities. The contribution rates for fiscal year 2019 were 31.00% for police officers and firefighters and 19.00% for all other employees. Contributions to the pension plan from the Department were \$409,141 for the fiscal year ended June 30, 2019.

Per Act 17 SLH 2017 (Act 17), future employer contributions from the State and counties are expected to increase pursuant to a phased-in contribution rate increase over four years beginning July 1, 2017. The rate for all employees, except for police officers and firefighters, increased to 19.00% on July 1, 2018; and increases to 22.00% on July 1, 2019; and 24.00% on July 1, 2020.

Department of Health State of Hawaii

Notes to Financial Statements
June 30, 2019

9. Employee Benefit Plans (continued)

a. Employees' Retirement System (continued)

iii. Contributions (continued)

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

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

At June 30, 2019, the Department reported a liability of \$6,293,077 for its proportionate share of net pension liability of the State. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The State's proportion of the net pension liability was based on a projection of the State's long-term share of contributions to the pension plan relative to projected contributions of all participants, actuarially determined. At June 30, 2018 and 2017, the Department's proportion of the State share was 0.08% and 0.09%, respectively.

There was no change in actuarial assumptions from June 30, 2017 to June 30, 2018. There were no changes in assumptions between the measurement date, June 30, 2018, and the reporting date, June 30, 2019, that are expected to have a significant effect on the proportionate share of the net pension liability.

**Department of Health
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Notes to Financial Statements
June 30, 2019

9. Employee Benefit Plans (continued)

a. Employees' Retirement System (continued)

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

For the year ended June 30, 2019, the Department recognized pension expense of \$754,196. At June 30, 2019, the Department reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 145,924	\$ (45,496)
Changes in assumptions	757,558	-
Net difference between projected and actual earnings on pension plan investments	200,897	(452,623)
Changes in proportion and difference between Department contributions and proportionate share of contributions	25,093	(47,199)
Department contributions subsequent to the measurement date	409,141	-
	<u>\$ 1,538,613</u>	<u>\$ (545,318)</u>

**Department of Health
State of Hawaii**

Notes to Financial Statements
June 30, 2019

9. Employee Benefit Plans (continued)

a. Employees' Retirement System (continued)

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

The \$409,141 reported as deferred outflows of resources related to pensions resulting from Department contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal year ending June 30,</u>	
2020	\$ 170,359
2021	155,287
2022	106,794
2023	76,178
2024	<u>75,536</u>
	<u>\$ 584,154</u>

v. Actuarial Assumptions

The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions adopted by the Board of Trustees of the Employees' Retirement System of the State of Hawaii, on December 12, 2016, based on the most recent experience study dated July 5, 2016:

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

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

**Department of Health
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Notes to Financial Statements
June 30, 2019

9. Employee Benefit Plans (continued)

a. Employees' Retirement System (continued)

v. Actuarial Assumptions (continued)

Post-retirement mortality rates are based on the 2016 Public Retirees of Hawaii mortality table with adjustments based on generational projections of the BB projection table for 2016 and full generational projections in future years. Pre-retirement mortality rates are based on multiples of RP-2014 mortality table based on the occupation of the member.

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

Strategic Allocation (risk-based classes)	Target Allocation	Long-term Expected Geometric Rate of Return
Broad growth	63.0%	7.10%
Principal protection	7.0%	2.50%
Real return	10.0%	4.10%
Crisis risk offset	20.0%	4.60%
	<u>100%</u>	

**Department of Health
State of Hawaii**

Notes to Financial Statements
June 30, 2019

9. Employee Benefit Plans (continued)

a. Employees' Retirement System (continued)

v. Actuarial Assumptions (continued)

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

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

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Department's proportionate share of the net pension liability	\$ 8,185,754	\$ 6,293,077	\$ 4,732,855

Department of Health State of Hawaii

Notes to Financial Statements
June 30, 2019

9. Employee Benefit Plans (continued)

a. Employees' Retirement System (continued)

vi. Pension Plan Fiduciary Net Position

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

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

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

vii. Payables to the Pension Plan

At June 30, 2019, there was no payable to the ERS.

b. Deferred Compensation Plan

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

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

Department of Health State of Hawaii

Notes to Financial Statements
June 30, 2019

9. Employee Benefit Plans (continued)

c. Post-Employment Healthcare and Life Insurance Benefits

i. Plan Description

The State provides certain health care and life insurance benefits to all qualified employees. Pursuant to Act 88, Session Laws of Hawaii (SLH) of 2001, the state contributes to the Hawaii Employer Union Health Benefits Trust Fund (EUTF), an agent multiple employer defined benefit plan, effective July 1, 2003. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees, and their dependents. The EUTF issues an annual financial report that is available to the public. The report may be obtained by writing to the EUTF at P.O. Box 2121 Honolulu, HI, 96805-2121.

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

Department of Health State of Hawaii

Notes to Financial Statements
June 30, 2019

9. Employee Benefit Plans (continued)

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

ii. Contributions

Contributions are governed by HRS Chapter 87A and may be amended through legislation. Contributions to the OPEB plan from the Department was \$522,671 for the fiscal year ended June 30, 2019. The employer is required to make all contributions for members.

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

At June 30, 2019, the Department reported a liability of \$6,551,114 for its proportionate share of net OPEB liability of the State. The net OPEB liability was measured as of July 1, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The State's proportion of the net OPEB liability was based on a projection of the State's long-term share of contributions to the EUTF relative to projected contributions of all participants, actuarially determined. The Department's proportion of the net OPEB liability was based on an allocation of the State's net OPEB liability based on the proportionate share of qualified payroll. At June 30, 2018 and 2017, the Department's proportion of the State's share was 0.06% and 0.07%, respectively.

There were no changes in assumptions between the measurement date, July 1, 2018, and the reporting date, June 30, 2019, that are expected to have a significant effect on the proportionate share of the net OPEB liability.

**Department of Health
State of Hawaii**

Notes to Financial Statements
June 30, 2019

9. Employee Benefit Plans (continued)

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

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

For the year ended June 30, 2019, the Department recognized OPEB expense of \$533,830. At June 30, 2019, the Department reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ (110,376)
Changes in assumptions	66,802	-
Net difference between projected and actual earnings on investments	-	(8,674)
Department contributions subsequent to the measurement date	<u>522,671</u>	<u>-</u>
	<u>\$ 589,473</u>	<u>\$ (119,050)</u>

The \$522,671 reported as deferred outflows of resources related to OPEB resulting from Department contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the fiscal year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Fiscal year ending June 30,</u>	
2020	\$ (10,794)
2021	(10,794)
2022	(10,794)
2023	(10,796)
2024	<u>(9,070)</u>
	<u>\$ (52,248)</u>

**Department of Health
State of Hawaii**

Notes to Financial Statements
June 30, 2019

9. Employee Benefit Plans (continued)

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

iv. Actuarial Assumptions

The total OPEB liability in the July 1, 2018 actuarial valuation was determined using the following actuarial methods and assumptions adopted by the EUTF's Board of Trustees on January 8, 2018, based on the experience study covering the five-year period June 30, 2015 as conducted for the ERS, applied to all periods included in the measurement, unless otherwise specified:

Actuarial cost method	Entry age normal
Discount rate	7.00%
Inflation	2.50%
Salary increases	3.50% to 7.00% including inflation
Investment rate of return	7.00%, net of investment expenses, including inflation
Demographic assumptions	Based on the experience study covering the five year period ended June 30, 2015, as conducted for the ERS
Mortality	System-specific mortality tables utilizing scale BB to project generational mortality improvement
Healthcare trend rates:	
PPO*	Initial rates of 10.00% declining to a rate of 4.86% after 13 years.
HMO*	Initial rates of 10.00% declining to a rate of 4.86% after 13 years.
Part B & BMC	Initial rates of 4.00% and 5.00% declining to a rate of 4.70% after 12 years.
Dental	Initial rates of 5.00% and 5.00% for first three years, followed by 4.00%
Vision	Initial rates of 0.00% for first three years, followed by 2.50%
Life insurance	0.00%
*Blended rates for medical and prescription drug	

**Department of Health
State of Hawaii**

Notes to Financial Statements
June 30, 2019

9. Employee Benefit Plans (continued)

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

iv. Actuarial Assumptions (continued)

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

Strategic Allocation (risk-based classes)	Target Allocation	Long-term Expected Geometric Rate of Return
U.S. equity	15.00%	5.05%
International equity	17.00%	6.50%
U.S. microcap	7.00%	7.00%
Private equity	10.00%	8.65%
Private credit	6.00%	5.25%
Alternative risk premia	5.00%	2.45%
Core real estate	10.00%	4.10%
Global options	7.00%	4.50%
Core bonds	3.00%	1.30%
Long treasuries	6.00%	1.90%
Trend following	9.00%	3.00%
TIPS	5.00%	0.75%
	100.00%	

**Department of Health
State of Hawaii**

Notes to Financial Statements
June 30, 2019

9. Employee Benefit Plans (continued)

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

v. Single Discount Rate

The discount rate used to measure the net OPEB liability was 7.00%, based on the expected rate of return on the OPEB plan investments of 7.00% and the municipal bond rate of 3.62% (based on the daily rate closest to but not later than the measurement date of the Fidelity “20-year Municipal GO AA Index”). Beginning with the fiscal year 2019 contribution, the State’s funding policy is to pay the recommended actuarially determined contribution, which is based on layered, closed amortization periods. Based on these assumptions, the OPEB plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

**Department of Health
State of Hawaii**

Notes to Financial Statements
June 30, 2019

9. Employee Benefit Plans (continued)

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

vi. Changes in Net OPEB Liability

The following table represents a schedule of changes in the net OPEB liability. The ending balances are as of the measurement date, July 1, 2018.

	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Beginning balance	\$ 7,035,183	\$ 543,878	\$ 6,491,305
Service cost	144,486	-	144,486
Interest on the total OPEB liability	447,361	-	447,361
Changes of benefit terms	-	-	-
Difference between expected and actual experience	(132,282)	-	(132,282)
Changes of assumptions	80,061	-	80,061
Employer contributions	-	430,391	(430,391)
Net investment income	-	49,589	(49,589)
Benefit payments	(217,826)	(217,826)	-
Administrative expense	-	(163)	163
Other	-	-	-
Net changes	321,800	261,991	59,809
Ending balance	\$ 7,356,983	\$ 805,869	\$ 6,551,114

**Department of Health
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Notes to Financial Statements
June 30, 2019

9. Employee Benefit Plans (continued)

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

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

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

	<u>1% Decrease (6.00%)</u>	<u>Discount Rate (7.00%)</u>	<u>1% Increase (8.00%)</u>
Department's proportionate share of the net OPEB liability	<u>\$ 7,744,989</u>	<u>\$ 6,551,114</u>	<u>\$ 5,713,022</u>

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

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

	<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rate</u>	<u>1% Increase</u>
Department's proportionate share of the net OPEB liability	<u>\$ 5,561,896</u>	<u>\$ 6,551,114</u>	<u>\$ 7,834,904</u>

Department of Health State of Hawaii

Notes to Financial Statements
June 30, 2019

9. Employee Benefit Plans (continued)

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

ix. OPEB Plan Fiduciary Net Position

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

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

x. Required Supplementary Information and Disclosures

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

10. Commitments and Contingencies

a. Operating Leases

The Department leases various office facilities and equipment through fiscal year 2024 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, 2019:

<u>Year ending June 30,</u>	<u>Amount</u>
2020	\$ 512,105
2021	448,969
2022	231,825
2023	74,753
2024	23,800
	<u>\$ 1,291,452</u>

Rental expenditures for the fiscal year ended June 30, 2019 approximated \$1,858,000.

Department of Health State of Hawaii

Notes to Financial Statements
June 30, 2019

10. Commitments and Contingencies (continued)

b. 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, 2019, the State recorded estimated losses for workers' compensation, automobile, and general liability claims as long-term liabilities as the losses will not be liquidated with currently expendable available financial resources. The estimated losses will be paid from legislative appropriations of the State's General Fund.

The Department's portion of the State's workers' compensation expenditures for the year ended June 30, 2019 were approximately \$417,000 and \$11,000 for the general fund and other funds, respectively.

c. Litigation

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

SUPPLEMENTARY INFORMATION

Department of Health
State of Hawaii
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2019

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Project Number	Federal CFDA Number	Passed through to Subrecipients	Total Federal Expenditures
Department of Health and Human Services				
Direct Programs:				
TB Epidemiological Studies Consortium	626	200-2011-41277	\$ -	\$ 301,735
Special Programs for the Aging - Title VII Chapter 3	468	93.041	-	17,710
Special Programs for the Aging - Title VII Chapter 2	468	93.042	-	107,181
Special Programs for the Aging - Title III Part D	401	93.043	42,973	42,973
Aging Cluster:				
Special Programs for the Aging - Title III Part B - Grants for Supportive Services and Senior Centers	401	93.044	1,926,192	1,999,772
Special Programs for the Aging - Title III Part C - Nutrition Services	401	93.045	2,226,915	2,705,073
Nutrition Services Incentive Program	406	93.053	449,275	449,275
Subtotal Aging Cluster			* 4,602,382	5,154,120
Special Programs for the Aging - Title IV and Title II - Discretionary Projects				
Alzheimer's Disease Demonstration Grants to States	405,757	93.048	-	900,453
National Family Caregiver Support, Title III, Part E	769	93.051	-	224,522
Public Health Emergency Preparedness	401	93.052	727,086	727,086
Environmental Public Health and Emergency Response	577,760,1297	93.069	-	4,959,334
Medicare Enrollment Assistance Program	444	93.070	161,611	418,623
Hawaii Birth Defects Surveillance and Intervention for Zika Virus	765,766,767	93.071	-	251,618
Affordable Care Act Personal Responsibility Education Program	761	93.073	48,902	82,080
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	613	93.092	80,315	200,244
Maternal and Child Health Federal Consolidated Programs	764	93.104	-	1,416,653
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	257,307,466	93.110	1,040,630	1,384,982
EMSC Partnership Grants	247	93.116	-	930,860
Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	670	93.127	-	1,417
Injury Prevention and Control Research and State and Community Based Programs	298	93.130	-	173,604
Projects for Assistance in Transition from Homelessness	various	93.136	130,885	883,453
Childhood Lead Poisoning Prevention Projects - State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	26208,30208	93.150	265,157	265,157
	780	93.197	19,655	338,421

* Denotes Major Federal Program

Department of Health
State of Hawaii
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2019

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Project Number	Federal CFDA Number	Passed through to Subrecipients	Total Federal Expenditures
Department of Health and Human Services (Continued)				
Hansen's Disease National Ambulatory Care Program	264	93.215	\$ -	\$ 966,022
Family Planning - Services	239	93.217	992,236	1,327,542
State Rural Hospital Flexibility Program	415	93.241	205,964	434,803
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	various	93.243	* 2,484,480	2,675,851
Universal Newborn Hearing Screening	416	93.251	74,292	272,801
Immunization Cooperative Agreements	457	93.268	*	16,836,297
Adult Viral Hepatitis Prevention and Control	397	93.270	-	109,495
Centers for Disease Control and Prevention - Investigations and Technical Assistance	649, 448	93.283	167,537	234,829
Small Rural Hospital Improvement Grant Program	454	93.301	118,486	118,486
National State Based Tobacco Control Programs	744	93.305	191,674	793,121
Epidemiology and Laboratory Capacity for Infectious Diseases	700	93.323	*	3,423,820
State Health Insurance Assistance Program	403	93.324	-	325,939
Behavioral Risk Factor Surveillance System - Zika	747	93.336	138,815	269,719
Improving the Health of Americans Through Prevention and Management of Diabetes and Heart Disease and Stroke	702	93.426	95,012	365,316
Food Safety and Security Monitoring Project	580	93.448	-	219,402
ACA Nationwide Program for National and State Background Checks for Direct Patient Access Employees of Long Term Care Facilities and Providers	644	93.506	-	197,201
ACA Building Epidemiology, Laboratory, and Health Information Systems Capacity in the Epidemiology and Laboratory Capacity for Infectious Disease and Emerging Infections Program Cooperative Agreements	607	93.521	-	127,862
PPHF Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance - financed in part by Prevention and Public Health Funds	758	93.539	-	224,454
Community-Based Child Abuse Prevention Grants	270	93.590	272,694	446,717
Developmental Disabilities Basic Support and Advocacy Grants	240	93.630	-	496,353
State Public Health Approaches for Ensuring Quitline Capacity - funded in part by Prevention and Public Health Funds	701	93.735	43,000	47,080
State and Local Public Health Actions to Prevent Obesity, Diabetes, Heart Disease and Stroke	various	93.757	* 1,767,963	2,269,173

* Denotes Major Federal Program

Department of Health
State of Hawaii
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2019

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Project Number	Federal CFDA Number	Passed through to Subrecipients	Total Federal Expenditures
Department of Health and Human Services (Continued)				
Preventive Health and Health Services Block Grant funded solely with Prevention and Public Health Funds	35203, 36203	93.758	\$ 14,995	\$ 987,993
State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	221, 380, 387	93.777	-	2,603,393
Medical Assistance Program	662	93.778	-	222,493
State Targeted Response to the Opioid Crisis	654	93.788	1,556,790	1,682,594
Domestic Ebola Supplement to the Epidemiology and Laboratory Capacity for Infectious Diseases	751	93.815	-	51,042
Hospital Preparedness Program (HPP) Ebola Preparedness and Response Activities	754	93.817	-	1,393
Maternal, Infant and Early Childhood Home Visiting Grant Program	602	93.870	3,292,189	3,687,804
National Bioterrorism Hospital Preparedness Program	435	93.889	1,060,748	1,275,569
Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations	448	93.898	776,984	1,188,347
Grants to States for Operation of Offices of Rural Health	299	93.913	1,500	171,988
HIV Care Formula Grants	293	93.917	2,694,984	2,694,984
HIV Prevention Activities - Health Department Based	266	93.940	160,180	1,132,578
Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	319	93.946	-	137,319
Block Grants for Community Mental Health Services	various	93.958	309,344	1,975,356
Block Grants for Prevention and Treatment of Substance Abuse	34204, 35204	93.959	* 8,000,885	8,121,347
Preventive Health Services - Sexually Transmitted Diseases Control Grants	268	93.977	-	381,492
Crisis Counseling	390, 658, 659	93.982	682,830	693,979
Preventive Health and Health Services Block Grant	36203, 37203	93.991	59,533	199,321
Maternal and Child Health Services Block Grant to the States	various	93.994	32,495	1,915,437
Olmstead Financial Support Award	242	93.UNKNOWN	-	229
Drug and Alcohol Services Information System (DASIS)	371	93.UNKNOWN	-	8,531
State Prevention Needs Assessment Studies	372	93.UNKNOWN	-	27,444
Hawaii State Mental Health Data Infrastructure Grants for Quality Improvement	318	93.UNKNOWN	-	113,858
Rural Health Grant Assessing the Feasibility	475	93.UNKNOWN	-	800

* Denotes Major Federal Program

Department of Health
State of Hawaii
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2019

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Project Number	Federal CFDA Number	Passed through to Subrecipients	Total Federal Expenditures
Department of Health and Human Services (Continued)				
Enforcing Underage Drinking Laws	480	93.UNKNOWN	\$ -	\$ 719
Hawaii Tobacco State Enforcement Contract	633	93.FAR 52.217-9	199,301	301,087
Electronic Death Registration	208	93.UNKNOWN	-	8,806
Vital Statistics Cooperative Program (VSCP) Special Project	285	93.UNKNOWN	-	233,466
Total Department of Health and Human Services Programs			<u>32,514,507</u>	<u>80,783,878</u>
Department of Agriculture				
Direct Programs:				
Plant and Animal Disease, Pest Control, and Animal Care	720	10.025	-	16,831
Special Supplemental Nutrition Program for Women, Infants and Children	275, 295	10.557	3,074,003	28,083,528
WIC Grants To States (WGS)	740, 741, 790	10.578	<u>255,569</u>	<u>272,142</u>
Total Department of Agriculture Programs			<u>3,329,572</u>	<u>28,372,501</u>
Environmental Protection Agency				
Direct Programs:				
Air Pollution Control Program Support	233	66.001	-	763,711
Surveys, Studies, Research, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	294	66.034	-	123,331
State Clean Diesel Grant - Retrofit	328	66.040	-	389,916
Multipurpose Grants to States and Tribes	235, 236	66.204	-	180,071
Water Pollution Control State, Interstate, and Tribal Program Support	231, 237, 601	66.419	-	1,996,149
State Public Water System Supervision	232	66.432	-	306,818
Water Quality Management Planning	various	66.454	-	58,101
Capitalization Grants for Clean Water State Revolving Funds	various	66.458	* 11,691,163	11,691,163
Nonpoint Source Implementation Grants	various	66.460	-	1,180,855
Capitalization Grants for Drinking Water State Revolving Funds	various	66.468	* 8,747,707	8,916,862
Beach Monitoring and Notification Program Implementation Grants	8291	66.472	-	354,863
Environmental Information Exchange Network Grant Program and Related Assistance	570	66.608	-	221,033
Toxic Substances Compliance Monitoring Cooperative Agreements	243	66.701	-	6,953
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	330	66.707	-	295,714
Hazardous Waste Management State Program Support	230	66.801	-	489,649

* Denotes Major Federal Program

Department of Health
State of Hawaii
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2019

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Project Number	Federal CFDA Number	Passed through to Subrecipients	Total Federal Expenditures
Environmental Protection Agency (Continued)				
Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	394	66.802	\$ -	\$ 320,806
Underground Storage Tanks Prevention, Detection and Compliance Program	339	66.804	-	321,940
Leaking Underground Storage Tank Trust Fund Corrective Action Program	258	66.805	-	369,850
State and Tribal Response Program Grants	360	66.817	-	1,119,835
Total Environmental Protection Agency Programs			<u>20,438,870</u>	<u>29,107,620</u>
Department of Education				
Direct Program--				
Special Education - Grants for Infants and Families	213	84.181	169,626	2,231,977
Total Department of Education Programs			<u>169,626</u>	<u>2,231,977</u>
Department of Defense				
Direct Program--				
State Memorandum of Agreement Program for the Reimbursement of Technical Services	245	12.113	-	425,154
Total Department of Defense Programs			<u>-</u>	<u>425,154</u>
Department of Transportation				
Direct Program--				
Interagency Hazardous Materials Public Sector Training and Planning Grants	641	20.703	-	91,598
Total Department of Transportation Programs			<u>-</u>	<u>91,598</u>
Total Expenditures of Federal Awards			<u>\$ 56,452,575</u>	<u>\$ 141,012,728</u>

* Denotes Major Federal Program

**Department of Health
State of Hawaii**

Notes to Schedule of Expenditures of Federal Awards
Fiscal Year Ended June 30, 2019

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the State of Hawaii, Department of Health (the Department) under programs of the federal government for the fiscal year ended June 30, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Department, it is not intended to and does not present the financial position, change in net position, or cash flows of the Department.

2. Summary of Significant Accounting Policies

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

3. Loans Outstanding

The Department had the following loan balances outstanding at June 30, 2019. Loans made during the year are included in the federal expenditures presented in the schedule of expenditures of federal awards.

Program Title	CFDA Number	Amount Outstanding
Capitalization Grants for Clean Water State Revolving Funds	66.458	\$ 35,031,583
Capitalization Grants for Drinking Water State Revolving Funds	66.468	\$ 33,132,015

4. Noncash Awards

The Department also receives noncash awards for the Immunization Cooperative Agreements Program. The Department expended approximately \$14,000,000 in vaccines for the Immunization Cooperative Agreements Program for the fiscal year ended June 30, 2019.

5. Indirect Cost Rate

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

PART II

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



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

Independent Auditor's Report

Office of the Auditor
State of Hawaii

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of Hawaii, Department of Health (Department), as of and for the fiscal year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated March 25, 2020.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as Finding No. 2019-001 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questions costs as Finding No. 2019-002 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the 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*.

Department's Response to Findings

The Department's response to the findings identified in our audit is described in the accompanying corrective action plan. The Department's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

KMH LLP

KMH LLP

Honolulu, Hawaii

March 25, 2020

PART III

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



A Hawaii Limited Liability Partnership

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

Independent Auditor's Report

Office of the Auditor
State of Hawaii

Report on Compliance for Each Major Federal Program

We have audited the State of Hawaii, Department of Health's (Department's) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Department's major federal programs for the fiscal year ended June 30, 2019. 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.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Department's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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 qualified and unmodified opinions on compliance for major federal programs. However, our audit does not provide a legal determination of the Department’s compliance.

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

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

CFDA Number	Name of Federal Program	Compliance Requirement	Ref. No.
93.268	Immunization Cooperative Agreements	Cash Management	2019-004
93.757	State and Local Public Health Actions to Prevent Obesity, Diabetes, Heart Disease and Stroke		
93.959	Block Grants for Prevention and Treatment of Substance Abuse		

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

Qualified Opinion on the Major Federal Programs in the Table Above

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

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the Department complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs for the fiscal year ended June 30, 2019.

Other Matters

The Department's response to the noncompliance findings identified in our audit are described in the accompanying corrective action plan. The Department's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as Finding No. 2019-003 through 2019-005, that we consider to be material weaknesses.

The Department's response to the internal control over compliance findings identified in our audit is described in the accompanying corrective action plan. The Department's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

KMH LLP

KMH LLP

Honolulu, Hawaii
March 25, 2020

PART IV
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**Department of Health
State of Hawaii**

Schedule of Findings and Questioned Costs
June 30, 2019

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No

- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No

- Significant deficiency(ies) identified? Yes None reported

Type of auditor’s report issued on compliance for major federal programs: Qualified

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

**Department of Health
State of Hawaii**

Schedule of Findings and Questioned Costs
June 30, 2019

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

Identification of major federal programs:

CDFA Number	Name of Federal Program
Department of Health & Human Services	
Aging Cluster:	
93.044	Special Programs for Aging – Title III Part B – Grants for Supportive Services and Senior Centers
93.045	Special Programs for Aging – Title III Part C – Nutrition Services
93.053	Nutrition Services Incentive Program
93.243	Substance Abuse and Mental Health Services – Projects of Regional and National Significance
93.268	Immunization Cooperative Agreements
93.323	Epidemiology and Laboratory Capacity for Infectious Diseases
93.757	State and Local Public Health Actions to Prevent Obesity, Diabetes, Heart Disease and Stroke
93.959	Block Grants for Prevention and Treatment of Substance Abuse
Environmental Protection Agency	
66.458	Capitalization Grants for Clean Water State Revolving Funds
66.468	Capitalization Grants for Drinking Water State Revolving Funds

Dollar threshold used to distinguish between type A and type B programs: \$3,000,000

Auditee qualified as low-risk auditee? Yes No

**Department of Health
State of Hawaii**

Schedule of Findings and Questioned Costs
June 30, 2019

Section II – Financial Statement Findings

Finding No.: 2019-001 Financial Statement Reporting – Deposit Beverage Container Program

Type of Finding: Material Weakness

Criteria: In accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, fund financial statements should be prepared using the current financial resources measurement focus and the modified accrual basis of accounting. Under this focus/basis, revenues are recognized only to the extent that they are susceptible to accrual. Revenues are recorded when earned, regardless of the timing of related cash flows.

Condition: During our audit, we proposed and management accepted two adjustments related to the Deposit Beverage Container Program (the Program). The first adjustment relates to deposit beverage container deposit revenues for approximately \$1.2 million. The second adjustment relates to understatement of receivables of approximately \$425,000 related to past due beverage container deposits for a distributor. The adjustments are recorded in the Department’s financial statements as of June 30, 2019.

Context: The errors noted above were detected during the audit of the Program’s revenues. For the first adjustment, we noted differences between revenues recorded on the Program’s trial balance and the State’s Financial Accounting and Management Information System (FAMIS). We noted that during the year ended June 30, 2019, the accountants who were previously involved left the Program. In April 2019, an accounting clerk and accountant began preparing the Program’s trial balance, which was over six months behind, for the year ended June 30, 2019. Although the accounting staff was able to catch up with the backlog, management did not reconcile the Program’s trial balance with FAMIS due to time constraints.

For the second adjustment, a distributor with past due beverage container deposits was identified by the Program in fiscal year 2018. Program management, working with the Attorney General of Hawaii, filed a notice of violation and order (NOVO) and subsequently a consent order, dated December 10, 2018, to resolve the NOVO. In the consent order, the distributor agreed to a payment schedule to catch up with amounts due and pay penalties. Payments by the distributor began in fiscal year 2019 and is scheduled to be completed by March 2020. However, no accrual to reflect the amounts owed by the distributor as of June 30, 2019 were recorded.

**Department of Health
State of Hawaii**

Schedule of Findings and Questioned Costs
June 30, 2019

Section II – Financial Statement Findings (continued)

Cause: The Department did not reconcile the deposit beverage container deposit revenues from the Program schedules to FAMIS. The missed accrual for the amounts in the consent order as of June 30, 2019 was a result of Program management’s oversight. Turnover of accounting staff in the fiscal year also contributed towards the problems noted. These matters resulted in an understatement of deposit beverage container deposit revenues and accounts receivable related to the deposit beverage container deposit fund.

Effect: The lack of reconciliations and staff turnover increases the risk of material misstatements as illustrated by the results of the fiscal year 2019 audit.

Identification as a Repeat Finding, if applicable: Not applicable

Recommendations: Management should perform reconciliations of the deposit beverage container deposit revenues and be more diligent in the identification of accruals for significant or unusual transactions.

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

**Department of Health
State of Hawaii**

Schedule of Findings and Questioned Costs
June 30, 2019

Section II – Financial Statement Findings (continued)

Finding No.: 2019-002 Reliance on Third Party Certifications

Type of Finding: Significant Deficiency

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

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

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

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

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

**Department of Health
State of Hawaii**

Schedule of Findings and Questioned Costs
June 30, 2019

Section II – Financial Statement Findings (continued)

Condition: The Deposit Beverage Container Program (Program) receives beverage container deposits and container fees from distributors and refunds deposits and pays handling fees to redemption centers based on certified information. The Program relies on certifications from distributors to support deposits and container fees received. The Program also relies on certifications from redemption centers to support deposit refunds and handling fees paid.

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

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

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

Identification as a Repeat Finding, if applicable: See finding 2018-002 included in the Summary Schedule of Prior Audit Findings.

**Department of Health
State of Hawaii**

Schedule of Findings and Questioned Costs
June 30, 2019

Section II – Financial Statement Findings (continued)

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

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

**Department of Health
State of Hawaii**

Schedule of Findings and Questioned Costs
June 30, 2019

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

Recommendation: We recommend that management revise its documented monitoring procedures to include a timeframe specifying the number of months after receiving the audited single audit reports that the review and evaluation procedures should be completed by. We also recommend that management establish a formal, documented risk assessment policy in order to support which subrecipients are chosen and how they are monitored.

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

**Department of Health
State of Hawaii**

Schedule of Findings and Questioned Costs
June 30, 2019

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

Finding No.: 2019-004 **Cash Management**
Federal Agency: Department of Health and Human Services (DHHS)
CFDA No.: 93.268, 93.757, and 93.959
Requirement: Cash Management
Type of Finding: Material Noncompliance and Material Weakness
Program: Immunization Cooperative Agreements
 State and Local Public Health Actions to Prevent Obesity, Diabetes,
 Heart Disease and Stroke
 Block Grants for Prevention and Treatment of Substance Abuse

Federal award no.	6NH23IP000721-05	04/01/2017 - 06/30/2019
and year:	NU58DP005502	09/30/2017 – 09/29/2018
	3B08TI010015-17	10/01/2016 – 09/30/2018
	3B08TI010015-18	10/01/2017 – 09/30/2019

Criteria: The federal award programs noted above are not subject to the Treasury-State Agreement and, as such, are subject to 2 CFR 200.305(b), which states:

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

Condition: Systemic problem. During our testing of the Department’s cash management procedures, we could not verify whether the State of Hawaii, Department of Accounting and General Services (DAGS) disbursed funds from federal sources as close as administratively feasible to the Department’s disbursements for the federal award programs identified above after the Department drew down the funds, in accordance with 2 CFR 200.305(b).

**Department of Health
State of Hawaii**

Schedule of Findings and Questioned Costs
June 30, 2019

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

Context: During the fiscal year ended June 30, 2019, the Department expended the following amounts under the following major programs as reported in the schedule of expenditures on pages 77 – 81:

CFDA 93.268 (excluding non-cash expenditures)	\$ 2,864,576
CFDA 93.757	2,269,173
CFDA 93.959	<u>8,121,347</u>
	<u>\$ 13,255,096</u>

Cause: The Department draws down federal funds that it estimates will be needed based on the vouchers processed daily. However, since deposits must be posted prior to the processing of payments or disbursing of the funds, it is difficult for the Department to disburse federal funds in accordance with 2 CFR 200.305(b), and we could not verify compliance with 2 CFR 200.305(b).

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

Questioned Costs: None

Identification as a Repeat Finding, if applicable: See finding 2018-005 included in the Summary Schedule of Prior Audit Findings.

Recommendation: In January 2020, the Department of Budget and Finance issued a memo to the departments to establish a standard for the State’s administratively feasible time period terminology. We recommend that the Department work with DAGS and the Department of Budget and Finance to ensure compliance with established standard and timely disbursement of federal funds in accordance with 2 CFR 200.305(b).

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

PRIOR YEAR FINDINGS AND QUESTIONED COSTS

Department of Health
State of Hawaii

Summary Schedule of Prior Audit
June 30, 2019

STATUS REPORT

This section contains the current status of prior audit recommendations. The recommendations are referenced to the pages of the previous audit report for the fiscal year ended June 30, 2018, dated March 14, 2019.

Recommendations

Status

Part II – Financial Statement Findings

2018-001 Financial Statement Reporting

Management should implement a process to reconcile the clean air permit fees from the program schedule to FAMIS.

Develop procedures to review prior year financial statements and determine whether variances and other material changes to the financial statement of the year being audited need further review based on rule changes, new laws or the State’s overall business climate that may contribute to the variances and material changes.

Accomplished. This finding is no longer applicable.

Department of Health
State of Hawaii

Summary Schedule of Prior Audit
June 30, 2019

Recommendations

Status

Part II – Financial Statement Findings (continued)

2018-002 Reliance on Third Party Certifications

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

Implement a comprehensive auditing function through filling positions within the Program and by outsourcing the auditing duties to an independent public accounting firm on an “as needed” basis.

Not accomplished. Refer to finding 2019-002.

Part III – Federal Award Findings and Questioned Costs

2018-003 Timely Submission of Federal Financial Report

We recommend program management be more diligent in following its procedures and internal controls related to contract close-outs and the de-obligation of funds in order to ensure compliance with Federal requirements.

Three months prior to the end of each contract year, letters notifying providers and contractors of invoice deadlines and time submittal of invoices will be issued. Alcohol and Drug Abuse Division intends to submit the Federal Financial Report directly to Substance Abuse and Mental Health Services Administration.

Accomplished. This finding is no longer applicable.

**Department of Health
State of Hawaii**

Summary Schedule of Prior Audit
June 30, 2019

Recommendations

Status

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

2018-004 Monitoring Procedures and Risk Assessment Process

We recommend that management establish a formal, documented risk assessment policy in order to support which subrecipients are chosen and how they are monitored. We also recommend that management follow its documented monitoring procedures.

Implement a risk assessment policy and enforce the program’s documented procedures.

Not accomplished. Refer to finding 2019-003.

2018-005 Cash Management

We recommend that the Department work with DAGS and B&F to ensure timely disbursement of federal funds in accordance with 31 CFR 205.

The State has been looking at its processes for managing federal awards and is taking steps towards addressing the issues relating to cash management. This affects all State agencies in the Executive Branch that receive Federal awards and DOH is waiting for the State to provide guidance and changes to process. Once guidance and processes are received from the State Office of Budget and Finance (B&F), DOH will work to comply with the requirements.

Not accomplished. Refer to finding 2019-004.

Department of Health
State of Hawaii

Summary Schedule of Prior Audit
June 30, 2019

Recommendations

Status

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

2018-006 Monitoring Procedures and Risk Assessment Process

We recommend program management develop formal policies and procedures to ensure compliance with Federal requirements.

Develop and implement documented policies for subrecipient monitoring and a formal risk assessment policy

Not accomplished. Refer to finding 2019-005

PART VI
CORRECTIVE ACTION PLAN

DAVID Y. IGE
GOVERNOR OF HAWAII



BRUCE S. ANDERSON, Ph.D.
DIRECTOR OF HEALTH

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

In reply, please refer to:
File:
ASO-F/20-317

March 25, 2020

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

Subject: Response to Draft Report "Financial Audit of the Department of Health, State of Hawaii, for the Fiscal Year Ended June 30, 2019".

Dear Mr. Kondo:

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

We appreciate the opportunity to comment on the report.

Sincerely,

Bruce S. Anderson, Ph.D.
Director of Health

Attachment

Financial Statement Findings
Fiscal Year 19 Audit

Finding No.: 2019-001 Financial Statement Reporting-Deposit Beverage Container Program
Type of Finding: Material Weakness

Corrective Action:

As noted in the Fiscal Year (FY) 2019 audit, staff turnover was recognized as a contributor to this financial reporting material weakness. The supervisor responsible for managing the Office of Solid Waste Management (OSWM), which oversees the Deposit Beverage Container (DBC) Program, resigned in mid-June 2019. In addition, only three positions of the six-person DBC Program accounting section was filled at that time, and one of the three hadn't completed her six-month probationary period. The DBC Program's accounting section lacked the supervision, personnel, and experience to adequately and accurately manage the DBC Program's financial reporting duties.

Since the FY19 audit was published, OSWM filled its supervisor vacancy. The DBC Program also added another Account Clerk II, recently selected a candidate to fill its vacant Accountant IV position and began the process to fill its Accountant III vacancy. With both Accountant positions filled, the DBC Program anticipates having just one remaining vacancy (Account Clerk II) in its accounting section.

With a (nearly) full accounting section and a supervisor in place, OSWM expects that it will meet all financial reporting requirements correctly, and in a timely manner, in FY20.

Person(s) Responsible: Name/Position Title/Program:

Michael Burke/Solid Waste Management Coordinator/Office of Solid Waste Management

Anticipated Date of Completion: June 2020

Financial Statement Findings
Fiscal Year 19 Audit

Finding No. 2019-002: Reliance on Third Party Certifications

Type of Finding: Significant Deficiency

Corrective Action:

OSWM is currently drafting a Request for Proposals (RFP) to solicit compliance monitoring or audit assistance of the DBC Program's certified redemption centers. With the Director's approval to RFP, the DBC Program will release this RFP by the end of Fiscal Year (FY) 2020 (June 30, 2020). Award and contract execution are expected to be completed by the middle of FY21 (December 31, 2020).

The DBC Program will then release an RFP to solicit compliance monitoring or audit assistance of the DBC Program's distributors by the end of FY21 (June 30, 2021), with award and contract execution expected to be completed by the middle of FY22 (December 31, 2021).

Selection of certified redemption centers and distributors will each be made using a risk-based analysis, as suggested by the State Auditor. The DBC Program anticipates that securing these services will address the audit's finding by independently monitoring the certified redemption centers and distributors to ensure compliance and reduce the reliance on third-party certifications.

Person(s) Responsible: Name/Position Title/Program:

Michael Burke/Solid Waste Management Coordinator/Office of Solid Waste Management

Anticipated Date of Completion: December 2021

Financial Statement Findings
Fiscal Year 19 Audit

Finding No.: 2019-03 Monitoring Procedures and Risk Assessment Process

Federal Agency: Department of Health and Human Services (DHHS)
CFDA No: 93.959
Requirement: Subrecipient Monitoring
Type of Finding: Material Weakness
Program: Block Grants for Prevention and Treatment of Substance Abuse
Federal Award No.
and Year: 3B08TI010015-17 10/01/2016-09/30/2018
3B08TI010015-18 10/01/2017-09/30/2019

Corrective Action:

The program recognizes that one provider's Financial Statement and Single Audit Report was not reviewed in a timely manner due to lack of personnel resources.

The program began taking action towards a solution that will have the provider and contractor Financial Statements and Single Audit Reports reviewed within thirty days of receipt. Three months prior to the end of each contract year, letter notifying providers and contractors of submitting required reports will be issued. Upon receipt, checklist will be completed and submitted to the Administrative Officer for final review and approval.

Person(s) Responsible: Name/Position Title/Program:

Janelle Saucedo/ADAD Administrator/ADAD and Melanie Muraoka/Administrative Officer /ADAD

Anticipated Date of Completion:

Next Financial Audit for the Period Ending June 30, 2020 for the Department of Health

Financial Statement Findings
Fiscal Year 19 Audit

Finding No.: 2019-004 **Cash Management**
Federal Agency: **Department of Health and Human Services (DHHS)**
CFDA No. **93.268, 93.757, and 93.959**
Requirement: **Cash Management**
Type of Finding: **Material Noncompliance and Material Weakness**
Program: **Immunization Cooperative Agreements**
State and Local Public Health Actions to Prevent Obesity,
Diabetes, Heart Disease and Stroke
Block Grants for Prevention and Treatment of Substance Abuse

Federal Award No.		
and Year:	6NH23IP000721-05	04/01/2017-06/30/2019
	NU58DP005502	09/30/2017-09/29/2018
	3B08TI010015-17	10/02/2016-09/30/2018
	3B08TI010015-18	10/01/2017-09/30/2019

Corrective Action:

The audit finds that the drawdown of funds for federal awards are not in compliance with 2 CFR 200.305(b) that requires disbursement of federal funds as close as administratively possible to DOH's disbursement for the federal award programs. As mentioned in the previous Financial Audit of the Department of Health, State of Hawaii, For the Fiscal Year Ending June 30, 2018, Reference No. 2018-004, Cash Management (Material Weakness), the State's requirement for disbursing the drawdown of funds is a very cumbersome process. The State Department of Budget and Finance (B&F) validates the deposits recorded in the State's Financial Accounting Management and Information System (FAMIS) done by the State Department of Accounting and General Services (DAGS). The processes for obtaining validation and posting to the FAMIS take approximately 5 to 10 days and it is only when these processes are secured, can DOH disburse the funds to vendors. This process affects all State agencies that receive federal funding. Memo No. 20-02 from the State of Hawaii, Department of Budget and Finance, dated January 30, 2020 establishes the standard for the State's "Administratively Feasible Time Period" for cash drawdowns from the U.S. Treasury. Per the memo, the "Administratively Feasible Time Period" for Summary Warrant Vouchers (SWV) and Payroll are 21 calendar days and 15 calendar days, respectively. Please see the attached B&F memo for additional information.

Person Responsible:

State of Hawaii, Department of Budget and Finance (B&F)
State of Hawaii, Department of Accounting and General Services (DAGS)

Anticipated Date of Completion: N/A

Attachment to Finding No. 2019-004 Cash Management

DAVID Y. IGE
GOVERNOR



CRAIG K. HIRAI
DIRECTOR
ROBERT YU
DEPUTY DIRECTOR

EMPLOYEES' RETIREMENT SYSTEM
HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
OFFICE OF THE PUBLIC DEFENDER

STATE OF HAWAII
DEPARTMENT OF BUDGET AND FINANCE
P.O. BOX 150
HONOLULU, HAWAII 96810-0150

ADMINISTRATIVE AND RESEARCH OFFICE
BUDGET, PROGRAM PLANNING AND
MANAGEMENT DIVISION
FINANCIAL ADMINISTRATION DIVISION
OFFICE OF FEDERAL AWARDS MANAGEMENT (OFAM)

January 30, 2020

FINANCE MEMORANDUM

MEMO NO. 20-02

To: All Department Heads

From: Craig K. Hirai
Director of Finance

Subject: Cash Management Requirement for Federal-State Fund Transfers subject to 31 CFR 205 Subpart B - "Rules Applicable to Federal Programs Not Included in a Treasury-State Agreement"

The purpose of this memorandum is to establish a standard for the State's "Administratively Feasible Time Period", terminology that is included in the cash management requirements for federal assistance programs subject to 31 CFR 205 Subpart B- "Rules Applicable to Federal Programs Not Included in a Treasury-State Agreement".

"Administratively Feasible Time Period" is the average number of days it takes for a department to drawdown cash from the U.S. Treasury and expend the cash in the State's accounting system (FAMIS). Federal requirement states that cash drawdown must be "as close as is administratively feasible" to cash outlay.

The Department of Budget and Finance's best estimate for the State's "Administratively Feasible Time Period" is noted below:

Type of Expenditure	Average Number of Days to Complete Transaction ("Time Period") *
Summary Warrant	21 calendar days
Voucher	
Payroll	15 calendar days

* The average number of transaction days was arrived at using FAMIS data when available or estimates to complete a transaction following established state procedures when data was not available.

As an alternative to this state standard, departments may determine their own 'administratively feasible' time period standard based on their unique departmental internal procedures. Departments that elect to do this should document the basis for their "administratively feasible time period" standard and issue the results by memorandum internally and to Budget and Finance.

Attached is a Frequently Asked Questions (FAQ) that provides additional details on this subject.

Should you have any questions, please contact Mark Anderson at 586-3035 or mark.k.anderson@hawaii.gov.

c: Mark Anderson, Dept. of Budget & Finance, Office of Federal Awards Management
Lenora Fisher, Dept. of Accounting & General Services

No. 1 Capitol District Building, 250 S. Hotel Street, Honolulu, Hawaii 96813

20577

20 000006

Attachment to Finding No. 2019-004 Cash Management

FREQUENTLY ASKED QUESTIONS (FAQs)

What are the U.S. Treasury's cash management requirements for federal award recipients?

Regulations that govern the transfer of funds from the federal government are codified in "31 CFR Part 205- Rules and Procedures for Efficient Federal-State Funds Transfers, Final Rule". There are two parts to the rule:

1. Subpart A-Rules Applicable to Federal Assistance Programs included in a Treasury-State Agreement
 - A Treasury-State Agreement is negotiated between the State and the U.S. Treasury after the close of every State fiscal year. The State of Hawaii's Treasury-State Agreements are posted at <http://federalawards.hawaii.gov/sga/>
 - "Section 4.0 Programs Covered" of the TSA lists the major assistance CFDA programs (large dollar programs) that are "covered" in the agreement.
 - A "funding technique" describes how the federal fund transfer will take place for each major assistance program.
 - Rules for Subpart A programs are codified in 31 CFR 205, Subpart A. <https://ecfr.io/Title-31/pt31.2.205#sp31.2.205.a>
2. Subpart B-Rules Applicable to Federal Assistance Programs not included in a Treasury-State Agreement
 - Federal programs NOT covered in the current Treasury-State Agreement are subject to the regulations in 31 CFR 205, Subpart B, §205.33. <https://ecfr.io/Title-31/pt31.2.205#sp31.2.205.b>

When is an award a "Subpart B" program?

Any program that is not listed in the current Treasury-State Agreement is a "Subpart B" program. If you have a question about whether an award is a Subpart B program, please contact the Office of Federal Awards Management at 586-3035.

What is meant by "administratively feasible" time period?

The terminology "administratively feasible" is referenced in *31 CFR 205, Subpart B* which states: "A State must minimize the time between the drawdown of Federal funds from the Federal government and their disbursement for Federal program purposes. A Federal Program Agency must limit a funds transfer to a State to the minimum amounts needed by the State and must time the disbursement to be in accord with the actual, immediate cash requirements of the State in carrying out a Federal assistance program or project. **The timing and amount of funds transfers must be as close as is administratively feasible to a State's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs.**"

We interpret the sentence "the timing and amount of funds transfers must be as is administratively feasible to a State's actual cash outlay" to mean that:

1. The 'administratively feasible' time period are the number of days that it takes to complete all necessary administrative tasks to drawdown and make funds available in the state's accounting system in time to make a payment.
2. The draw down should be limited to the amount needed to make a payment.

Attachment to Finding No. 2019-004 Cash Management

What is the purpose of establishing a standard to define the State's "Administratively Feasible Time Period"?

A standard serves two purposes: (1) to provide a guideline for state grant managers to time the drawdown of federal funds in order to comply with federal cash management requirements for awards subject to 31 CFR 205 Subpart B (2) to provide auditors with a state standard to assess whether an award has met the 'administratively feasible' standard.

How was the State's "Administratively Feasible Time Period" determined?

A timeline consisting of three periods was established. The calendar days for each period was determined using data from the State's accounting system (FAMIS) when available and estimates to complete a transaction following established state and departmental procedures.

Timeline for Federal-State Fund Transfers				
Type of Expenditure	Drawdown to Posting of Revenue in FAMIS	Disbursement (Posting Expenditure in FAMIS)	Department-level administrative tasks	TOTAL DAYS
Summary Warrant Vouchers	6.78 calendar days	7 calendar days	7 calendar days	21 calendar days
Payroll	6.78 calendar days	1 calendar day	7 calendar days	15 calendar days

Financial Statement Findings

Fiscal Year 19 Audit

Finding No.: 2019-005 **Monitoring Procedures and Risk Assessment Process**
Federal Agency: **Department of Health and Human Services (DHHS)**
CFDA No: **93.757**
Requirement: **Subrecipient Monitoring**
Type of Finding: **Material Weakness**
Program: **State and Local Public Health Actions to Prevent Obesity,
Diabetes, Heart Disease and Stroke**

Federal Award No.
and Year: **NU58DEP005502 09/30/2014-09/30/2018**

Corrective Action:

The program recognizes the lack of documented policies and procedures and a formal, documented risk assessment policy. We understand that the lack of documented policies and procedures and a formal, documented risk assessment policy could lead to non-compliance with the subrecipient monitoring requirement.

The program has had significant turnover in personnel which has prolonged the completion of the documented policies and procedures. The program acknowledges that it is a repeat finding and considers it as a top priority to ensure compliance with Federal requirements.

Attached are the draft documents created as of March 19, 2020. We will continue to work on finalizing and implementing the formal, documented risk assessment policies and procedures.

Person(s) Responsible: Name/Position Title/Program:

Sayuri Sugimoto
Administrative Officer
Chronic Disease Prevention and Health Promotion Division

Anticipated Date of Completion: December 31, 2020

CHRONIC DISEASE PREVENTION & HEALTH PROMOTION DIVISION POLICY AND PROCEDURE MANUAL

SUBJECT:

Risk Assessment Management of Subrecipient

PURPOSE:

To establish policy and procedures for the Chronic Disease Prevention & Health Promotion Division's (CDPHPD) risk assessment management of any subrecipient receiving federal funds.

DEFINITION:

Risk is defined as an uncertain outcome (positive or negative) that may affect the course of a procurement exercise at a future date.

Risk assessment is the effort of identifying and analyzing potential (future) events that may negatively impact individuals, assets, and/or the environment and making judgements on how much tolerance for risk can be taken in these events.

Risk Management is the forecasting and evaluation of financial risk together with the identification of procedures to avoid or minimize their impact.

Pass-Through Entity is a non-federal entity that provides a subaward to a subrecipient to carry out part of a federal program.

Subrecipient is a non-federal entity that receives a subaward from a pass-through entity to carry out part of a federal program; but does not include an individual that is a beneficiary of such program. A subrecipient may also be a recipient of other federal awards directly from a federal awarding agency.

POLICY:

1. The CDPHPD, a Pass-Through Entity, shall conduct a risk assessment of any subrecipient or contractor receiving federal funds for the purpose of assessing the probability of risk and their potential impact.
2. The pre-award assessment shall include CDPHPD's evaluation of any subrecipient or contractor on their experience with similar awards, whether there have been significant changes in personnel or systems, and results of previous financial audits that may have been done. In addition, CDPHPD employees are required to conduct a pre-award risk assessment questionnaire to determine the risk a subrecipient or contractor poses to meet federal requirements by

Attachment to Finding No. 2019-005 Monitoring Procedures and Risk Assessment Process

considering issues such as financial instability, insufficient management systems, non-compliance with award conditions, the charging of unallowable costs, and inexperience. Determination of any weaknesses identified may then require additional terms and conditions be included in the subaward agreement.

3. CDPHPD employees shall evaluate the subrecipient or contractor's risk of noncompliance with federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate monitoring. Monitoring ensures that the subaward is used for authorized purposes, remains in compliance with federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved.
4. CDPHPD employees are required to continuously monitor the subrecipient or contractor on keeping up with the agreed upon timetable and reviewing invoices that are submitted timely and are an accurate reflection of the work being done. In addition, CDPHPD employees are required to keep detailed records of communications regarding unsatisfactory performance by the subrecipient or contractor and report any unsatisfactory performance or non-compliance promptly.
5. CDPHPD employees are required to conduct onsite visits to determine the status of project goals, objectives, and activities from a programmatic and financial perspective.
6. CDPHPD employees are required to determine whether the results of subrecipient or contractor audits, onsite reviews, or other monitoring activity indicate conditions that necessitate adjustments to the contract and or imposing specific conditions upon a subrecipient or contractor, where appropriate.

PROCEDURE:

1. To adequately evaluate the risk of any subrecipient or contractor receiving federal funds, the subaward agreement should contain, but not limited to, the following:
 - a. Statement of work
 - b. Price and budget
 - c. Period of performance
 - d. Federal award description, including CFDA#, award identification (FAIN) and date of award
 - e. Subrecipient name and DUNS number
 - f. Program and financial reporting requirements
 - g. Monitoring and audit requirements

Attachment to Finding No. 2019-005 Monitoring Procedures and Risk Assessment Process

2. CDPHPD employees shall conduct a pre-award risk assessment to determine the risk an applicant poses to meeting federal programmatic and administrative requirements. The risk assessment will include a Pre-Award Questionnaire Form (Attachment A) to be completed by the subrecipient or contractor.
3. To ensure each subrecipient or contractor is using the subaward for authorized purposes, in compliance with federal statutes, regulations, and the terms and conditions of the subaward, and that subaward performance goals are achieved, CDPHPD employees shall monitor the subrecipient or contractor by completing the Monitoring Report Form (Attachment B).
4. To adequately monitor a subrecipient or contractor, CDPHPD employees shall keep track of agreed upon timetables, review invoices, and communicate reports of any unsatisfactory performance or non-compliance by the subrecipient or contractor promptly.
5. To effectively monitor risk, CDPHPD employees shall conduct onsite visits at the subrecipient or contractor's respective location and complete the Onsite Visit Form (Attachment C) to determine project goals, objectives, and activities from a programmatic and financial perspective.
6. To effectively manage risk, CDPHPD employees shall review audits, on-site reviews, and other monitoring activity to determine any corrective action for the subrecipient or contractor.

ATTACHMENTS:

- A. Attachment A, CDPHPD Risk Assessment Questionnaire
- B. Attachment B, CDPHPD Monitoring Report Form
- C. Attachment C, CDPHPD Onsite Visit Form

Attachment to Finding No. 2019-005 Monitoring Procedures and Risk Assessment Process

**Subaward Monitoring
Site Visit Worksheet**

Instructions: Each site visit should be documented using this worksheet. The monitor should indicate the reasons for the site visit, whether planned or unannounced, review data prior to the visit, and note any issues identified during the visit. If problems are noted, then this worksheet should be used to prepare a report to the monitor's supervisor for action.

Legal Name of Subrecipient:		Contract #:	
Federal Contract:		Title of Federal Award:	
Date:		Time:	
Location:			
Monitor Name:			
Reason for Visit:			
Announced Visit		Unannounced Visit	
Actions Taken	Were Actions Completed?	Actions Taken	Were Actions Completed?
Notify subrecipient point of contact		Define objectives of visit, including documents to review	
Discuss objectives for visit, including document(s) to review		Review subaward file	
Review subaward file		Determine issues to discuss	
Determine issues to discuss			
During Site Visit			
Announced Visit		Unannounced Visit	
Actions Taken	Were Actions Completed?	Actions Taken	Were Actions Completed?
Conduct entrance discussion with officials		Conduct entrance discussion with officials	
Observe project activities		Observe project activities	
Review program and financial records (see following pages for checklist)		Review program and financial records (see following pages for checklist)	
1. Compare to submitted reports		1. Compare to submitted reports	
2. Document differences		2. Document differences	
Other		Other	
Issues for Follow-up:			

Attachment to Finding No. 2019-005 Monitoring Procedures and Risk Assessment Process

**Subaward Monitoring
Site Visit Worksheet**

Site Visit Financial Records Review Checklist			
1. Internal Controls	Yes	No	Comments
All expenditures made under grant are approved by the grantee program manager or someone who is familiar with the approved grant application and with the cost principles (A-87 and A-122).			
The grantee program manager approves only those expenditures that are: for activities approved in the budget and are allowable under the cost principles.			
Controls are in place that insure grant funds are available sufficient to cover expenditures.			
There is an accounting record for each grant received.			
Expenditures are posted to the accounting record as they occur.			
The accounting record tracks expenditures against the approved budget.			
Post-award changes in a grant budget have been approved by the funding agency and the budget has been adjusted in the accounting record.			
Required reports are filed within the established time frames.			
Documentation sufficient to determine the nature of grant expenditures and their allowability is kept as a part of the financial record.			
2. Use of Grant Funds			
Grant funds are not used to purchase land or buildings or improve land or buildings unless there is prior approval from the funding agency and it is allowable under grant terms.			
Special purpose equipment (an article costing more than \$5,000) that is required to address specific grant objectives and that has been purchased with grant funds has been purchased in accordance with organizational policy insuring competitive prices.			
Grant funds are not used to purchase general purpose equipment (articles costing more than \$5,000 and used for the general functions of the organization) such as office equipment and furnishings, telephone networks, information technology equipment and systems, air conditioning, reproduction and printing equipment and motor vehicles unless it is specifically identified as an allowable expenditure or there is prior approval from the awarding agency.			
If the grantee passes funds on to another organization, it is clear that it sub-grants these funds.			
A sub-grant award is on file that clearly identifies the activities supported by the subgrant, a budget, the assurances/ requirements that accompany federal funds, and payment provisions.			
The grantee monitors its sub-grantee for compliance with the conditions of the sub-grant award.			
3. Supplies and Materials			
Supplies and materials are charged to the grant in allowable fashion as approved in the budget.			
Only supplies and materials actually used for the grant objectives are charged as direct costs			
Supplies and materials are charged at their actual prices net any applicable credits.			

**Subaward Monitoring
Site Visit Worksheet**

4. Equipment Inventory	Yes	No	Comments
Controls are in place to protect assets acquired with grant funds.			
Property/ equipment records are maintained that include a description, serial number, source, and acquisition cost and date.			
An inventory, up-dated within the last year, exists of equipment purchased with grant funds that includes the property record, its location, condition, and, if it was disposed of, the sale price or its fair market value.			
Control systems are in place to prevent loss, damage, or theft.			
Adequate maintenance procedures keep the property in good condition.			
5. Services and Reimbursable Costs			
Only allowable services supporting grant objectives are charged as direct costs of the grant as approved in the budget.			
The costs for travel, meals, conferences, training, and other incidental costs conform to cost principles and the organization's policies limiting these costs. Documentation includes the content of the event to which these costs are incidental and participants.			
Travel costs, including transportation, lodging, subsistence, and other costs associated with travel status, are charged to the grant when travel is essential for carrying out grant objectives and when costs do not exceed charges allowed by the organization in its normal operations.			
Only memberships, subscriptions, and professional activities related to grant objectives are charged to the grant.			
Costs identified as unallowable by federal circular, statute, regulation, or prohibited by the grant agreement are not charged to the grant.			
6. Records Retention			
Financial records, supporting documents, statistical records, and all other records pertinent to grant are retained for a period of three years after the submission of the final expenditure report, the required annual reports, or the record was used in response to an audit finding			
Site Visit Program Records Review Checklist			
List Documents Reviewed		Comments	
1.			
2.			
3.			
4.			
5.			
6.			
7.			
8.			
9.			