STATE OF HAWAI'I
OFFICE OF THE AUDITOR
465 S. King Street, Room 500
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LESLIE H. KONDO
State Auditor

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DEPT. COMM. NO. 384

May 4, 2018

VIA EMAIL & HAND DELIVERY (senkouchi@capitol.hawaii.gov)

The Honorable Ronald D. Kouchi
Senate President
415 South Beretania Street
Hawai'i State Capitol, Room 409
Honolulu, Hawai'i 96813

VIA EMAIL & HAND DELIVERY (sendelacruz@capitol.hawaii.gov)

The Honorable Donovan M. Dela Cruz
Chair, Senate Committee on Ways and Means
415 South Beretania Street
Hawai'i State Capitol, Room 208
Honolulu, Hawai'i 96813

RE: 2017 Annual Report

Dear President Kouchi and Chair Dela Cruz:

We are enclosing a copy of our *2017 Annual Report*, which includes summaries of the performance and financial audit reports that were issued during the 2017 calendar year.

The report is accessible through our website at:

http://files.hawaii.gov/auditor/Reports/2018/2017AnnualReport.pdf.

If you have any questions about this report, please contact me.

Very truly yours,

Leslie H. Kondo
State Auditor

LHK:emo
Enclosure

cc/encl: Senate Members (via email only)

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May 4, 2018

VIA EMAIL & HAND DELIVERY **(repsaiki@capitol.hawaii.gov)**

The Honorable Scott K. Saiki
Speaker, House of Representatives
415 South Beretania Street
Hawaiʻi State Capitol, Room 431
Honolulu, Hawaiʻi 96813

VIA EMAIL & HAND DELIVERY **(repluke@capitol.hawaii.gov)**

The Honorable Sylvia Luke
Chair, House Committee on Finance
415 South Beretania Street
Hawaiʻi State Capitol, Room 306
Honolulu, Hawaiʻi 96813

RE: 2017 Annual Report

Dear Speaker Saiki and Chair Luke:

We are enclosing a copy of our *2017 Annual Report*, which includes summaries of the performance and financial audit reports that were issued during the 2017 calendar year.

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OFFICE OF THE AUDITOR

STATE OF HAWAIʻI

2017 ANNUAL REPORT

Table of Contents

COVER PHOTO: OFFICE OF THE AUDITOR

Reads Great, Still Filling

We work hard to make it easy.


PHOTO: MICHAEL KEANY

WELCOME to this Annual Report, which highlights the work of the Office of the Auditor in 2017.

Over the course of the year, we released a variety of reports — 38 in all — including performance audits of state agencies, studies of the impacts of proposed legislation, and reviews of special, revolving, and trust funds. Some of these reports made front-page news; a few generated controversy; but we believe all of them helped to identify areas where the audited agencies can meaningfully improve their respective operations, to be more efficient and, generally, more accountable to the Legislature and the public.

You may notice as you flip through our recent releases that the reports are more colorful and easier to read. We have worked hard to better present our audit findings and recommendations to readers. To that end, we have incorporated more data visualization, in the form of infographics, photos, and illustrations; we have tried to give our readers the essential points of an audit quickly, through executive summaries that tell you what you want to know, right up front; and we have included pull-quotes and sidebars to help highlight information that we feel is both important and interesting.

Through all of the changes to the look of our reports, our fundamental mission is unchanged: we strive to provide objective, rigorous, and meaningful audit findings and recommendations, with the ultimate goal to help improve State government.

Aloha,

Leslie H. Kondo
State Auditor

Mission of the Office of the Auditor

Improving government through independent and objective analyses.

PHOTO: OFFICE OF THE AUDITOR

Spreading the Word

In 2017, the office continued working to reach a larger audience with accessible and substantive audit reports that communicate their message clearly and effectively.

HERE AT THE Office of the Auditor, we've been thinking a lot about our audience. Specifically, who is reading the reports we publish, how we can expand that audience, and how we can enhance the reading experience. Governmental audits are sometimes dismissed as being just for legislators and policy wonks, but the way we see it, our reports can be useful and enlightening for just about anyone living in Hawai'i. The more we all know about how our State government is operating — in good ways and bad — the better equipped we'll be as citizens and informed voters. Government should and must be accountable.

One misconception we often hear – from the public, from government officials, and even from legislators – is that we are an office of CPAs focused on reconciling agencies' financial records. Although we count a number of CPAs as part of our staff, we are also former journalists, attorneys, and appraisers. We do not perform financial audits. Those audits, which are intended to opine on the fairness of the presentation of an agency's financial statements, are contracted to independent CPA firms.

Our audits assess agency performance. A performance audit, basically speaking, is a fair and impartial assessment of an agency's performance of its duties and responsibilities. We examine how an agency performs certain functions and, where appropriate, make specific recommendations about where improvements can be made. By evaluating the performance of a State agency, our aim is to add value — for the State, and for the public as a whole.

Of course, describing a problem in performance involves a lot more than determining whether an agency has properly balanced its budget. Correctly diagnosing and describing the problem is the first challenge, and then the next is communicating our findings as clearly and simply as possible, while still being both accurate and nuanced.

To that end, we've been striving to make our audits easier to read. Part of this involves avoiding overly technical descriptions and legalese in favor of plain English whenever possible and offering clearer explanations and examples for a particularly complex finding.

By evaluating the performance of a State agency, our aim is to add value — for the State, and for the public as a whole.

We're also doing more to front-load our reports with the most essential, relevant information, summarizing and condensing the main points of the report so readers can get a good sense of its content early on. Now, for example, we lead each report with a one- to two-page Auditor's Summary that succinctly answers the following questions: What did we find? Why did these problems occur? Why do these problems matter?

It's our hope that giving our readers that larger context will help explain why they should care, and encourage more of them to dig deeper into the full findings of each audit.

Another tool we're employing to make audits more accessible: visual storytelling, using charts, infographics, and photo-illustrations to convey information to readers in a straightforward, easily understood format.

For example, in our July 2017 audit of the Hawai‘i Department of Agriculture's Plant Quarantine Branch (PQB), we included numerous infographics to clearly and quickly communicate our findings. One exhibit laid out the branch's scheduled enhanced inspections for all of the State's airports and harbors, over the course of six years. Using bright green/yellow color coding, it becomes obvious that the branch scheduled no enhanced inspections at all in FY2015, almost certainly increasing the risk of invasive species entering Hawai‘i's ports during that time.

Infographics are another way we provide readers with additional context. Our PQB audit report included an illustrated nine-year timeline showing the recent arrival of a variety of invasive species and harmful diseases, ranging from varroa mites to Rapid Ohia Death — driving home the very real consequences of ineffective inspections of imported cargo.

Importantly, we hold these visual elements of our audits to the same high standard as the rest of the reporting. Every statement of fact is supported by data, documentation, and testimony, which are verified through a thorough internal review process. Our current reports may be more accessible, but at their core, they're as rigorous and substantiated as ever.

Finally, we've also been updating the channels through which the public can access our reports. Because more and more people get their news from online social media channels, the Office of the Auditor has set up presences on both Facebook and Twitter. Find us @HawaiiStateAuditor and, as always, at auditor.hawaii.gov.

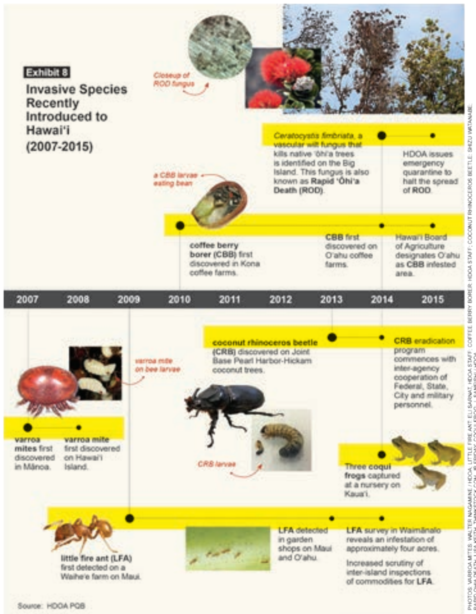
Infographics like these help show complex information in an easy to understand format.

Plant Quarantine Branch Enhanced Inspection Schedule FY2011–FY2015

	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016
HNL – Daniel K. Inouye International Airport	unknown	January, June	July, August, January	none	none	none scheduled
HIL – Port of Hilo*	unknown	August	none	none	none	none scheduled
ITO – Hilo International Airport	unknown	May, August	unknown	unknown	none	none scheduled
KOA – Kona International Airport	unknown	Feb-March	August	unknown	none	August
KWE- Kona Maritime	unknown	Feb-March	August	August	none	none scheduled
LIH – Līhu‘e Airport	unknown	March	unknown	September	none	September
MUA – Maui Maritime	unknown	April	unknown	unknown	none	none scheduled
NAW-Kauai Maritime, Nāwiliwili Harbor	unknown	March	unknown	September	none	none scheduled
OGG – Kahului Airport	unknown	July	September	unknown	none	July
O‘ahu PIO – O‘ahu Maritime	unknown	January, June	July, August, January	unknown	none	none scheduled

* Shipments from the Mainland arrive at the Port of Hilo between 12 a.m.–4 a.m.

Source: HDOA



Summary of 2017 Reports

PHOTO: THINKSTOCK

Sunrise Analysis: Regulation of Certified Professional Midwives

Report No. 17-01, January 2017

During the 2016 Session, the Legislature considered legislation to regulate Certified Professional Midwives and, by concurrent resolution, asked us to review the appropriateness of the proposed regulation. The Hawai'i Regulatory Licensing Reform Act requires us to assess legislative proposals that will create a regulatory scheme for professions and vocations that currently are unregulated. These reviews, which are known as "Sunrise Analyses," examine whether regulation is necessary to protect the health, safety, or welfare of consumers of the services and is consistent with other regulatory policies.

WE FOUND THAT the State's proposed regulation of Certified Professional Midwives, who comprise just a small segment of the midwifery profession, was insufficient and inconsistent with the State's regulatory policies. The proposed regulation we reviewed applied only to midwives who have obtained the Certified Professional Midwife credential from the North American Registry of Midwives, which is one of several midwifery associations, but the proposed regulation did not require even those individuals to be licensed to provide services as a midwife.

Although the regulation, as proposed, was flawed, we found that the Hawai'i Regulatory Licensing Reform Act's criteria supports mandatory licensure of the entire midwifery profession. Midwives assist women in home childbirth. They can perform exams monitoring the pregnant mother's health as well as the weight, heart rate, and position of the baby; provide prenatal care; assist during labor and delivery; and offer guidance about breastfeeding and other newborn care issues. They typically provide such services as an alternative to a medical doctor such as an obstetrician. Their work directly impacts—and can endanger—the health and safety of both mothers and babies. Given the nature of the work performed by midwives, we recommended that the Legislature consider establishing a mandatory licensing framework for all midwives, not just Certified Professional Midwives, to protect the consumers of the services, i.e., the mothers and newborns.

Given the nature of the work performed by midwives, we recommended that the Legislature consider establishing a mandatory licensing framework for all midwives.

PHOTO: THINKSTOCK

Financial and Program Audit of the Deposit Beverage Container Program

Report No. 17-02, June 2017

This is the sixth biennial financial and program audit of the Deposit Beverage Container Program. The audit was conducted pursuant to Section 342G-107, Hawai'i Revised Statutes (HRS), which requires the Office of the Auditor to conduct a management and financial audit of the Deposit Beverage Container Program and Deposit Beverage Container Deposit Special Fund in fiscal years ending in even-numbered years, after the initial audit for the fiscal year ended June 30, 2005. The audit was conducted by the certified public accounting firm of N&K CPAs, Inc.

WE FOUND, as we did in each of our previous audits, that the program relies on self-reported data from distributors and certified redemption centers and lacks adequate controls to monitor the accuracy and completeness of the information submitted by distributors and certified redemption centers. The lack of adequate controls exposes the program to risks of underpayments by distributors and overpayments to certified redemption centers, either of which results in financial harm to the State.

The Department of Health, which administers the program, has been aware of this flawed payment system since 2006 but has done little to address it; the department has neither made substantive changes to the program nor increased its enforcement and inspection activities. Because these deficiencies contribute to the inherent incentive for distributors, redemption centers, and exempt companies to misreport data, the program continues to be exposed to fraud, which may result in higher costs and an unreliable reported redemption rate.

The lack of adequate controls exposes the Program to risks of underpayments by distributors and overpayments to certified redemption centers, either of which results in financial harm to the State.

In our prior audits, we recommended that management strengthen controls to ensure that the program is properly collecting deposits and container fees from distributors and that the costs of administering the program (e.g., reimbursements and handling fees paid to certified redemption centers) are minimized. We repeat and reiterate those same recommendations.

The department concurred with the findings and the recommendations to establish an internal audit function to audit distributors and redemption centers using a risk-based approach. However, until the recommendations are fully implemented, the Program will continue to be under significant risk of fraud and abuse.

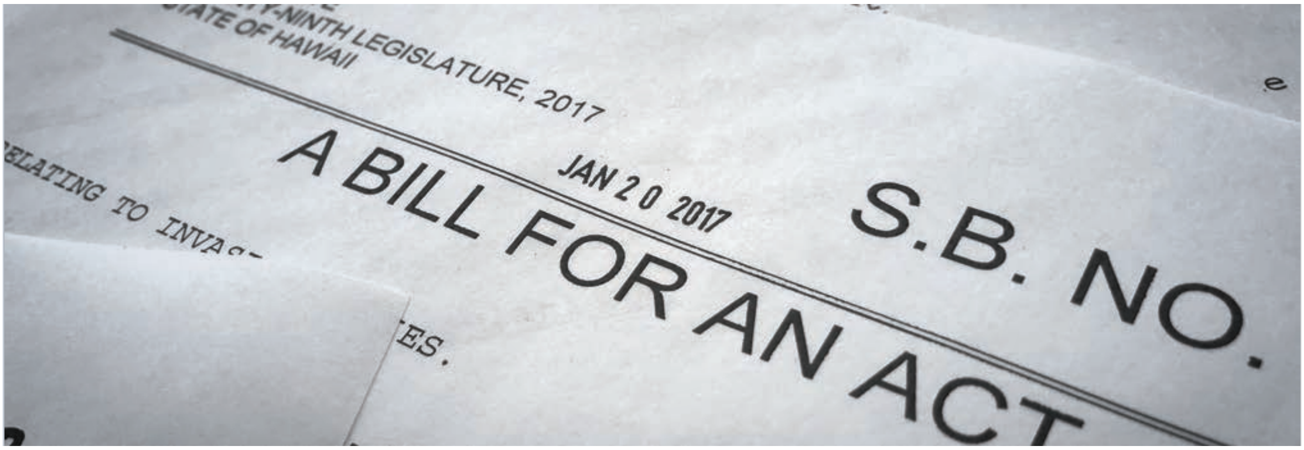


PHOTO: OFFICE OF THE AUDITOR

Overview of Proposed Special and Revolving Fund Analyses

Report No. 17-03, March 2017

Every year, the Auditor analyzes all legislative bills introduced each session that propose to establish new special or revolving funds. None of the 65 new special and revolving funds proposed during the 2017 Legislative Session met amended statutory criteria for establishing such funds. Only one fund in the past four years has met the criteria.

ONLY ABOUT HALF the money the State spends each year comes from its main financial account, the general fund. The other half of expenditures are financed by special, revolving, federal, and trust funds. Over the past ten years, the number of these non-general funds and the amount of money contained in them have substantially increased. Much of this upward trend has been caused by an increase in special funds, which are funds set aside by law for a specified object or purpose.

In 2013, the Legislature amended Section 23-11, HRS, after the Auditor recommended changes to stem a trend in the proliferation of special and revolving funds over the past 30 years. Such funds erode the Legislature's ability to control the State budget through the general fund appropriation process.

General funds, which made up about two-thirds of State operating budget outlays in the late 1980s, had dwindled to about half of outlays. By 2011, special funds amounted to $2.48 billion, or 24.3 percent, of the State's $10.2 billion operating budget. Also ballooning were revolving funds, which are used to pay for goods and services, and are replenished through charges to users of the goods and services, or transfers from other accounts or funds. By 2011, revolving funds made up $384.2 million, or 3.8 percent, of the State's operating budget.

Further hampering the Legislature's control over the budget process was a 2008 court case. In *Hawai'i Insurers Council v. Linda Lingle, Governor of the State of Hawai'i*, the Supreme Court of Hawai'i determined that under only certain conditions could the Legislature "raid" special funds to balance the state budget. In 2013, in order to gain more control over the budget process, the Legislature built new safeguards into the criteria for establishing special funds.

Despite the new criteria, special and revolving funds persist: in FY2017, the general fund comprised approximately 51 percent of the State operating budget, with special and revolving funds comprising 23 percent.

PHOTO: THINKSTOCK

Follow-Up on Recommendations from Report No. 14-16, *Audit of the Department of Health's Glass Advance Disposal Fee*

Report No. 17-04, July 2017

Section 23-7.5, HRS, requires the Auditor to report to the Legislature annually on each audit recommendation more than one year old that has not been implemented by the audited department or agency. This report presented the results of our review of nine recommendations made to the Department of Health (DOH) in Report No. 14-16, Audit of the Department of Health's Glass Advance Disposal Fee Program*, which was published in December 2014.*

THE 2014 LEGISLATURE asked the Office of the Auditor to conduct an audit of the Glass Advance Disposal Fee (ADF) program, noting that the cost of recycling non-deposit glass containers exceeded the amount of revenue collected by the State. Although counties receive approximately 90 percent of that revenue in order to pay glass recyclers, they commonly exhaust those funds before the end of each fiscal year. Before considering an increase of the advance disposal fee for glass containers, the Legislature asked us to examine how State funds are used by the counties.

In Report No. 14-16, *Audit of the Department of Health's Glass Advance Disposal Fee Program*, we found that the State's solid waste disposal goals were outdated and the program lacked performance goals that were tied to a clear mission. As a result, it was unclear what the program was supposed to accomplish and how it measured progress. We also found that DOH viewed its role in the program as limited to collecting funds and passing those funds along to the counties. DOH did not verify or require supporting documentation for the costs claimed by counties and recyclers, so it was unable to determine why incentive rates to recyclers varied from county to county.

In Report No. 14-16, we made nine recommendations to the department. Our 2017 follow-up review found that the department has implemented one and partially implemented three of the nine recommendations. One recommendation is no longer applicable, and four recommendations remain open.

The recommendation fully implemented was that the scope of services within the county contracts be revised to include requiring supporting documentation for such costs. Among the partially implemented recommendations: DOH has adopted written procedures for contract administration, accounting, and collection and compilation of glass ADF data presented in legislative annual reports, but not for enforcement and compliance. Also, DOH formally adopted a new method of calculating ADF allocations in the FY2017 contract year, but we were unable to assess whether the new method was timely and accurate, since the counties had not yet received any disbursements.

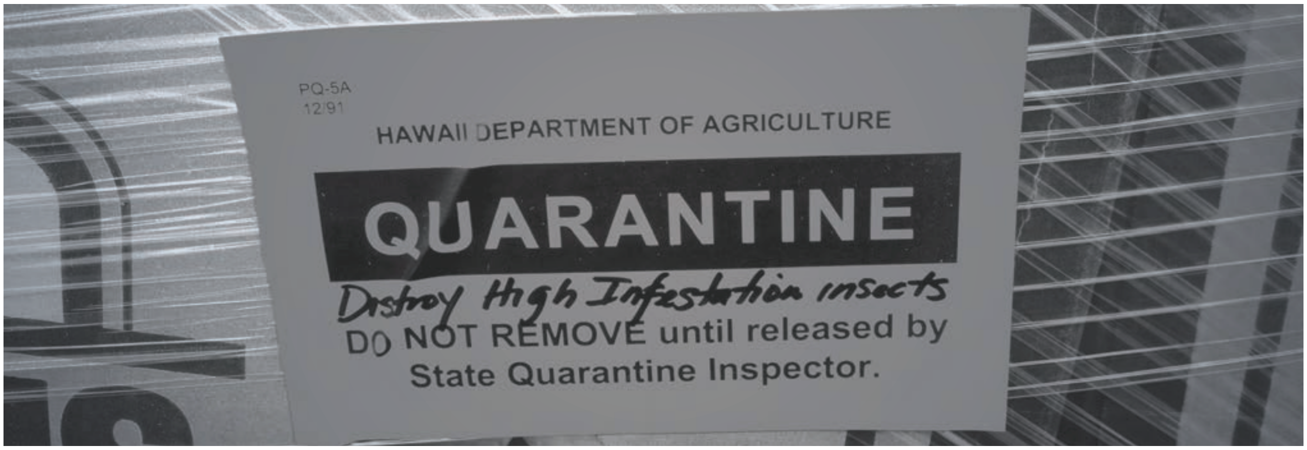


PHOTO: OFFICE OF THE AUDITOR

Audit of Hawai‘i Department of Agriculture’s Plant Quarantine Branch

Report No. 17-05, July 2017

The audit of Hawai‘i Department of Agriculture’s Plant Quarantine Branch (PQB) was performed in response to Act 243, Session Laws of Hawai‘i 2016. We conducted the audit pursuant to Article VII, Section 10 of the Hawai‘i State Constitution and Section 23-4, HRS, which require the Auditor to conduct post-audits of the transactions, accounts, programs, and performance of all departments, offices, and agencies of the State and its political subdivisions.

IN TODAY’S GLOBALLY interconnected world, the State of Hawai‘i must be vigilant, responsive, and flexible in guarding against the threat of invasive species. Given the tremendous volume of cargo arriving through Hawai‘i’s ports, inspectors cannot examine every box of produce, every plant, or even every shipping container. Instead, the branch must develop processes and incorporate technology to deploy its inspectors and direct its biosecurity efforts efficiently and effectively.

However, we found that the branch lacks the data gathering and data analysis tools necessary to define and respond to threats posed by invasive species. Other biosecurity agencies, both domestic and foreign, use data-driven risk analysis to continually guide operations, but PQB is unable to collect consistent, meaningful pest interception data or disseminate up-to-date information to its inspectors.

As a result, we found that PQB inspection activities vary from inspector to inspector, based on the individual’s experience. The little guidance inspectors do receive from the department is outdated or infrequently updated. Other information is communicated, in the words of one PQB inspector, “caveman style”—handed down verbally from one inspector to another.

After more than a decade of development and close to $4.2 million in new and amended contracts, the Hawai‘i Department of Agriculture (HDOA) has failed in its attempt to implement a central integrated database system that can perform its necessary core functions. The branch’s current database, Invicta, does not include important taxonomic data, communicate with other PQB databases, or support e-manifesting, a screening process that allows low-risk cargo to be pre-cleared. Because of Invicta’s limited capabilities, pest interception data and other information collected by inspectors are not shared throughout the branch or integrated with other data sources to provide the branch with a necessary tool to reassess the risk of entry of invasive species.

Without a reliable source of data on which it can base decision-making, HDOA cannot and does not monitor, evaluate, adjust, or improve its inspection activities. As a result, PQB inspectors operate in a “bubble,” inspecting today as they did yesterday. Meanwhile, new and emerging invasive species risks may be going unaddressed.


PHOTO: THINKSTOCK

Follow-Up on Recommendations from Report No. 14-07, *Follow-Up Audit of the Management of Mauna Kea and the Mauna Kea Science Reserve*

Report No. 17-06, July 2017

Section 23-7.5, HRS, requires the Auditor to report to the Legislature annually on each audit recommendation more than one year old that has not been implemented by the audited department or agency. This report presents the results of our review of eight recommendations made to the University of Hawai'i and the Department of Land and Natural Resources in Report No. 14-07, Follow-Up Audit of the Management of Mauna Kea and the Mauna Kea Science Reserve*, which was published in August 2014.*

IN REPORT NO. 14-07, *Follow-Up Audit of the Management of Mauna Kea and the Mauna Kea Science Reserve*, we found that the University of Hawai'i (UH) did not expect to adopt administrative rules until 2017, due in part to delays in the rulemaking process. In the absence of rules, UH was managing and assessing fees on commercial tour activities with permits and informal agreements unauthorized by the UH Board of Regents. We also found that contractual terms and other requirements precluded UH and the Department of Land and Natural Resources (DLNR) from updating general leases, subleases, and permits.

Our follow-up on the implementation of recommendations made in Report No. 14-07, conducted between October 2016 and January 2017, included interviews with selected personnel, examining relevant documents and records, and evaluating whether UH and DLNR's actions appeared to fulfill our recommendations. We found that UH and DLNR had partially implemented four of the recommendations. Three recommendations remained open, and one was inapplicable at the time of the follow-up.

Among the recommendations partially implemented: UH completed the drafting of administrative rules and was prepared to begin the necessary public hearing process. However, at the request of the governor, UH temporarily halted the process of finalizing such rules. Also, UH implemented 20 of the 25 total Comprehensive Management Plan actions, including working with families with lineal and historical connections to Mauna Kea, cultural practitioners, and other Native Hawaiian groups, toward the development of appropriate procedures and protocols regarding cultural issues. Regarding the recommendation that UH further its efforts to renew general leases for UH-managed lands on Mauna Kea, UH and DLNR asserted that securing a new master lease would require an Environmental Impact Statement. Such efforts were restarted at the request of the governor following protests against the Thirty Meter Telescope project, and work was ongoing.

PHOTO: DEPARTMENT OF TRANSPORTATION

Report of Hawai‘i Superferry Final Expenses

Report No. 17-07, July 2017

In 2016, the Legislature appropriated $50,000 to the Hawai'i Department of Transportation (DOT) to study the feasibility of establishing an interisland and intra-island ferry system. DOT received an additional $500,000 for the study from the U.S. Department of Transportation's Maritime Administration. As DOT considered the feasibility of another interisland ferry system, this report updated the total costs the State incurred—and taxpayers are still paying—to support Hawai'i Superferry operations. The costs we reported are from DOT's financial accounting records.

WE FOUND THAT, while the Hawai‘i Superferry stopped its operations on March 19, 2009, the State continues to pay costs it incurred for support of Hawai‘i Superferry operations—$71 million in total—and will continue to pay those costs until 2028.

Among the significant costs of note: DOT paid more than $38.1 million to Healy Tibbitts Builders for the barges and vehicle ramp systems for the Hawai‘i Superferry, but was only able to recoup $382,500 after the SuperFerry assets were sold off, making this equipment an almost total loss. The three State-owned barges were built in China and therefore were not part of the Jones Act Fleet. This meant they could not be converted to cargo carriers, since they would be prohibited from carrying merchandise and cargo directly between U.S. ports. In addition, the barge-and-ramp systems were designed specifically for Hawai‘i Superferry's use and could not be repurposed by other harbor users. These factors likely had profound impacts on the resale value of the barge-and-ramp systems.

Part of the cost of the barge-and-ramp systems was the repeated repair and replacement of the mooring system, including mooring lines, fenders, and bollards—$443,270, all told. This despite the fact that the contract with Healy Tibbits required that all of the barge-and-ramp systems be extremely reliable and operate through all kinds of weather conditions, including storm surge conditions, occasional high wave action, occasional high winds, and rain.

DOT also paid half a million dollars for daily tug boat service. After the U.S. Coast Guard expressed concern about the instability of the barge-and-ramp system at Kahului Harbor, DOT commissioned a tugboat to hold the barge snug against the pier during Hawai‘i Superferry operations to provide the safe loading and unloading of vehicles. During periods of strong ocean surges, regardless of whether the ferry was in port or not, the tug boat was also needed to either hold the barge snug against the pier to minimize damage or move the barge off the pier.

Daily tug service of about two-and-a-half hours to three hours a day started in December 13, 2007. DOT paid $506,804 for tug services in Kahului Harbor from December 2007 through September 2008, passing along these expenses to Hawai‘i Superferry in October 2008. The company never reimbursed the State.

Also, of the $38 million in general obligation bonds originally issued by the State in 2008 to finance the Superferry project, as of July 1, 2017, the outstanding balance was $32.6 million. The overall cost of the bond financing will be $24.6 million.

PHOTO: THINKSTOCK

Sunset Evaluation: Regulation of Athletic Trainers

Report No. 17-08, September 2017

The Legislature mandates that providers of services that jeopardize consumer health, safety, or welfare be licensed to ensure that the State only regulates a profession or a vocation when reasonably necessary to protect consumers. In accordance with the Hawai'i Regulatory Licensing Reform Act, the Auditor must determine and report on whether the athletic trainer regulation complies with the State's policies for regulating professions and vocations; and whether public interest requires that the law establishing the program be reenacted, modified, or permitted to expire after its June 30, 2018, repeal date.

WE CONCLUDED that regulation of athletic trainers is consistent with and supported by the policy criteria for professional licensing in the Hawai'i Regulatory Licensing Reform Act, Chapter 26H, HRS. Athletic trainers are healthcare professionals who provide injury prevention, treatment and assessment of injuries, and rehabilitation of injuries, among other services. In our view, the current registration requirement for athletic trainers is reasonably necessary to protect the health and safety of athletes and others under their care. By requiring athletic trainers to be certified by the Board of Certification for Athletic Trainers (BOC), the State is ensuring that the practice of athletic training conforms with industry standards that are widely accepted by athletic trainers.

The regulatory program, established by the Legislature in 2012, requires that, to register as an athletic trainer in Hawai'i, an applicant must have completed BOC educational and certification requirements and be certified by the board. To be eligible for the BOC certification examination, applicants must graduate from a Commission Accreditation of Athletic Training Education-accredited athletic training program and demonstrate competency in injury and illness prevention, emergency care, therapeutic intervention, and health care administration. To maintain certification, athletic trainers must continue taking medically related classes and conform to a standard of professional practice.

We found that regulation is reasonably necessary because the decisions an athletic trainer makes, whether during a game, practice, or try-out, can have significant impacts on a player's health, safety, and welfare. They are responsible for first diagnoses of injuries ranging from concussion to heat-stroke, and making return-to-play/return-to-practice decisions. Athletic trainers also provide initial treatment of injuries such as splinting, positioning, and if needed will call 911, or an on-call physician.

We also found that the overall cost of regulation on athletic trainers is relatively minor given the profession's impact on health and safety. Moreover, regulation is not overly exclusive in favor of Hawai'i athletic trainers.

PHOTO: THINKSTOCK

Review of Special Funds, Revolving Funds, Trust Funds, and Trust Accounts of the Department of Human Resources Development

Report No. 17-09, November 2017

Section 23-12, HRS, requires the Auditor to review all existing special, revolving, and trust funds every five years. Reviews are scheduled so that each department's funds are reviewed once every five years. Although not mandated by statute, we included trust accounts as part of our review. The Department of Human Resource Development (DHRD) did not have any revolving funds or trust accounts during our review period. This is our fifth review of DHRD's revolving funds, trust funds, and trust accounts. It is our first review of the special fund of DHRD.

OUR REVIEW of DHRD's one special fund and two trust funds determined that the funds met criteria and should be continued.

We used criteria developed by the Legislature and by our office based on public finance and accounting literature. For each fund, we present a five-year financial summary, the purpose of the fund, and conclusions about its use. We did not audit the financial data which is provided for informational purposes. We do not present conclusions about the effectiveness of programs or their management, or whether the programs should be continued.

We also noted DHRD did not file statutorily required reports for non-general funds and for administratively created funds. Accurate and complete reporting will greatly improve the Legislature's oversight and control of these funds and provide increased budgetary flexibility.

DHRD generally agreed with our findings, except our conclusion on the reporting requirements for the two trust funds. DHRD asserted that the two trust funds "are not controlled by the legislature, do not play a part in budgetary flexibility and have no 'excess moneys' that can be transferred to the general fund." We disagree with DHRD. The statutory requirements that DHRD report to the Legislature are unambiguous and do not exempt these trust funds. It continues to be our conclusion that DHRD must comply with reporting requirements of the statutes.

Our review of one special fund and two trust funds determined that the funds met criteria and should be continued.

PHOTO: THINKSTOCK

Review of Special Funds, Revolving Funds, Trust Funds, and Trust Accounts of the Department of Taxation

Report No. 17-10, November 2017

Section 23-12, HRS, requires the Auditor to review all existing special, revolving, and trust funds every five years. Reviews are scheduled so that each department's funds are reviewed once every five years. Although not mandated by statute, we included trust accounts as part of our review. The Department of Taxation (DoTAX) did not have any revolving funds during our review period. This is our fifth review of DoTAX's revolving funds, trust funds, and trust accounts. It is our first review of DoTAX's special funds.

OUR REVIEW of DoTAX's four special funds, two trust funds, and seven trust accounts found two special funds and three trust accounts did not meet criteria and should be closed or reclassified.

We used criteria developed by the Legislature and by our office based on public finance and accounting literature. For each fund, we present a five-year financial summary, the purpose of the fund, and conclusions about its use. We did not audit the financial data which is provided for informational purposes. We do not present conclusions about the effectiveness of programs or their management, or whether the programs should be continued.

We also noted that DoTAX did not file statutorily required reports for non-general funds and for administratively created funds. Accurate and complete reporting will greatly improve the Legislature's oversight and control of these funds and provide increased budgetary flexibility.

DoTAX generally agreed with our findings and will take appropriate action to close one special fund and three trust accounts that did not meet criteria and inform the Department of Budget and Finance of our recommendation to reclassify one special fund to a trust account. DoTAX will also comply with reporting requirements.

We noted that DoTAX did not file statutorily required reports for non-general funds and for administratively created funds.

PHOTO: OFFICE OF THE AUDITOR

Review of Special Funds, Revolving Funds, Trust Funds, and Trust Accounts of the Department of Public Safety

Report No. 17-11, November 2017

Section 23-12, HRS, requires the Auditor to review all existing special, revolving, and trust funds every five years. Reviews are scheduled so that each department's funds are reviewed once every five years. Although not mandated by statute, we included trust accounts as part of our review. This is our fifth review of the Department of Public Safety's (PSD) revolving funds, trust funds, and trust accounts. It is our first review of PSD's special funds.

OUR REVIEW of PSD's six special funds, three revolving funds, four trust funds, and five trust accounts found one revolving fund did not meet criteria and should be closed.

We used criteria developed by the Legislature and by our office based on public finance and accounting literature. For each fund, we present a five-year financial summary, the purpose of the fund, and conclusions about its use. We did not audit the financial data which is provided for informational purposes. We do not present conclusions about the effectiveness of programs or their management, or whether the programs should be continued.

We also noted that PSD did not file statutorily required reports for non-general funds and for administratively created funds. Accurate and complete reporting will greatly improve the Legislature's oversight and control of these funds and provide increased budgetary flexibility.

PSD generally agreed with our findings and will take appropriate action to close the revolving fund that did not meet criteria. PSD will also comply with reporting requirements.

Our review of six special funds, three revolving funds, four trust funds, and five trust accounts found one revolving fund did not meet criteria and should be closed.

PHOTO: OFFICE OF THE AUDITOR

Review of Special Funds, Revolving Funds, Trust Funds, and Trust Accounts of the Department of Labor and Industrial Relations

Report No. 17-12, November 2017

Section 23-12, HRS, requires the Auditor to review all existing special, revolving, and trust funds every five years. Reviews are scheduled so that each department's funds are reviewed once every five years. Although not mandated by statute, we included trust accounts as part of our review. This is our fifth review of the Department of Labor and Industrial Relation's (DLIR) revolving funds, trust funds, and trust accounts. It is our first review of DLIR's special funds.

OUR REVIEW of DLIR's ten special funds, one revolving fund, four trust funds, and five trust accounts found one special fund did not meet criteria and should be closed.

We used criteria developed by the Legislature and by our office based on public finance and accounting literature. For each fund, we present a five-year financial summary, the purpose of the fund, and conclusions about its use. We did not audit the financial data which is provided for informational purposes. We do not present conclusions about the effectiveness of programs or their management, or whether the programs should be continued.

We also noted that DLIR did not file statutorily required reports for non-general funds and for administratively created funds. Accurate and complete reporting will greatly improve the Legislature's oversight and control of these funds and provide increased budgetary flexibility.

DLIR generally agreed with our findings and will take appropriate action to close the special fund that did not meet criteria. DLIR will also comply with reporting requirements.

Our review of ten special funds, one revolving fund, four trust funds, and five trust accounts found one special fund did not meet criteria and should be closed.

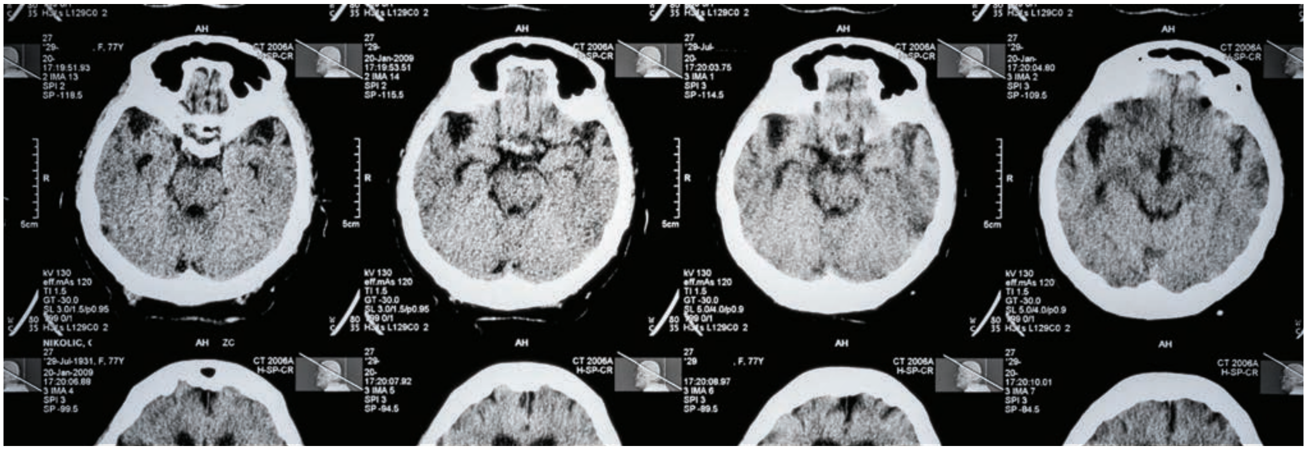


PHOTO: THINKSTOCK

Study of Proposed Mandatory Health Insurance for Cognitive Rehabilitation Therapy

Report No. 17-13, December 2017

In the 2017 Legislative Session, the Hawai'i State Legislature contemplated mandating insurance coverage for cognitive rehabilitation therapy for patients suffering from traumatic brain injury. State law requires an impact assessment by the Auditor before any legislative measure mandating health insurance coverage for a specific health service, disease, or provider can be considered.

WE SURVEYED Hawai'i's health-plan providers and found that their plans currently provide coverage for medically necessary cognitive rehabilitation therapy for traumatic brain injury patients. In fact, current coverage exceeded the Legislature's requirements in Senate Bill No. 225, S.D. 1, which proposed a maximum benefit of $300,000 per insured, unless the individual and group hospital or medical service plan contract states otherwise. Hawai'i health plan providers do not currently have any lifetime or annual limits on cognitive rehabilitation therapy for traumatic brain injury in their plans.

In our examination of the potential social and financial effects of mandating health insurance coverage for cognitive rehabilitation therapy for patients suffering from traumatic brain injury, we found that an average of almost 13,000 Hawai'i residents sustained traumatic brain injuries each year from 2011 through 2015. In addition, from June 2016 to May 2017, Queen's Medical Center treated and discharged 863 trauma patients, of which 840 patients (or 97 percent) were expected to require cognitive rehabilitation treatment.

Since health insurance coverage currently exists, we found the social and financial impacts to survivors of traumatic brain injury likely would not change if coverage was mandated.

Because the coverage that Senate Bill No. 225, S.D. 1, sought to mandate was currently provided— and even exceeded —by Hawai'i's health plan providers, we recommended that mandatory insurance coverage for medically necessary cognitive rehabilitation therapy for patients suffering from traumatic brain injury is not currently needed.

Because the coverage that Senate Bill No. 225, S.D. 1, seeks to mandate was currently provided–and even exceeded–by Hawai'i's health plan providers, we recommended that mandatory insurance coverage for medically necessary cognitive rehabilitation therapy for patients suffering from traumatic brain injury is not currently needed.

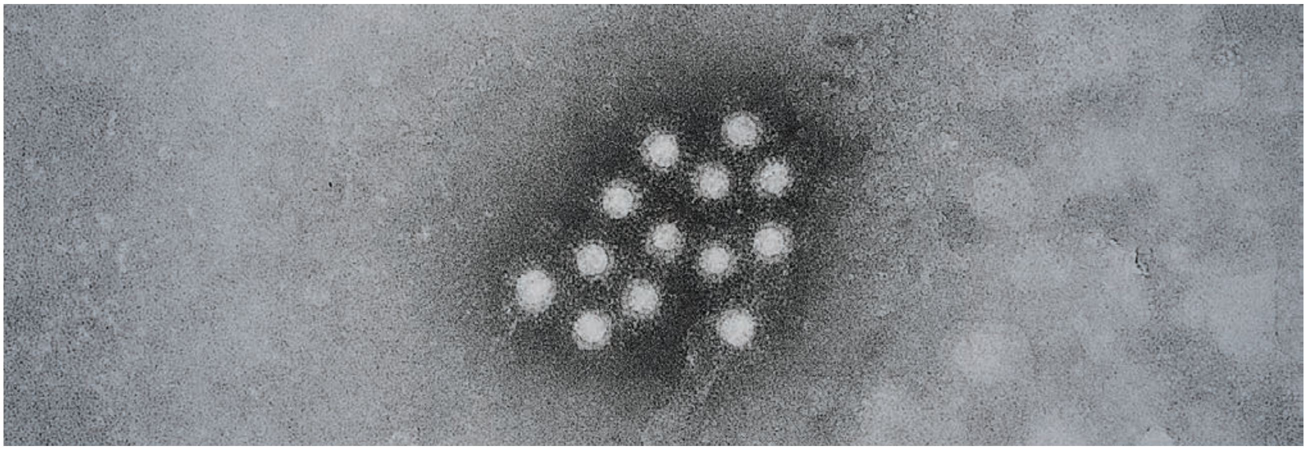


PHOTO: ARNA JOHNSON

Audit of the Disease Outbreak Control Division of the Department of Health

Report No. 17-14, December 2017

In Report No. 17-14, Audit of the Disease Outbreak Control Division of the Department of Health*, we assessed the division's surveillance and response to three disease outbreaks: dengue fever on Hawai'i Island, hepatitis-A involving frozen scallops on O'ahu and Kaua'i, and salmonella-infected ogo on O'ahu.*

WE FOUND THAT, during outbreak responses, the Disease Outbreak Control Division (the Division) and the Department of Health (DOH) experienced communication breakdowns with other DOH divisions, State and County response representatives, and the general public. During the outbreaks, DOH did not have a formal communications plan that would have provided established guidance on issues such as the timing of the first public announcement about the outbreak and procedures for sharing outbreak information with other agency officials. The confusion and, at times, discord, may have been avoided if DOH had established and followed a full communications plan.

We also found that the Division had inconsistent processes and procedures for recordkeeping, internal reviews, and reporting. We noted that neither DOH nor the Division could provide us with a comprehensive account, timeline, or summary of the outbreak responses. In addition, the Division did not follow the disease-specific investigation protocols it does have in place. These deficiencies resulted in limited accountability to the public and could also result in missed investigation steps and possible delays and/or replication of efforts during an outbreak response.

In our review of the summary and final reports for the outbreaks, we found that the Division's final summary reports do not consistently follow a scientific format as recommended by the Centers for Disease Control and Prevention. The Division also did not consistently complete end-of-outbreak reviews, debriefs, or after-action reports. Such reviews would help assess lessons learned and determine areas for improvement so that the Division is better prepared for future outbreaks.

We found that, during outbreak responses, the Division experienced communication breakdowns with other DOH divisions, State and County response representatives, and the general public. We also found deficiencies that would result in limited accountability to the public and could also result in missed investigation steps and possible delays and/or replication of efforts during an outbreak response.

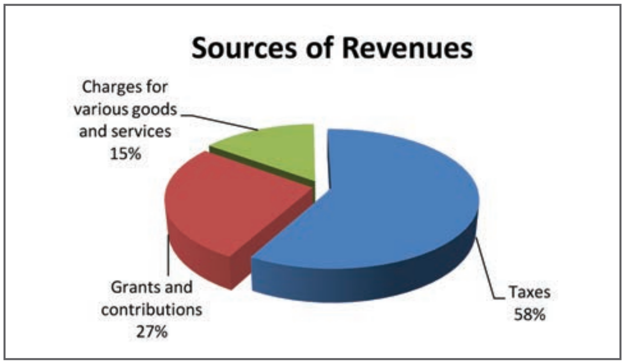
Summary of 2016 Financial Audits

Summary of 2016 Financial Audits

To attest to the fairness of agencies' financial statements, the Office of the Auditor, through contracted CPA firms, examines the adequacy of their financial records and accounting and internal controls, and determines the legality and propriety of expenditures. In 2017, we administered 19 financial statement audit contracts, including the State's Comprehensive Annual Financial Report and Single Audit Report.

State of Hawai'i Comprehensive Annual Financial Report – June 30, 2016

For the fiscal year ended June 30, 2016, total revenues were $11.2 billion and total expenses were $10.7 billon, resulting in an increase in net assets of $500 million. Approximately 57 percent of the State's total revenues came from taxes of $6.4 billion, 29 percent from grants and contributions of $3.2 billion, and 14 percent from charges for various goods and services of $1.6 billion.



Total tax revenues of $6.4 billion consisted of general excise taxes of $3.2 billion or 50 percent, net income taxes of $2.1 billion or 33 percent, and other taxes of $1.1 billion or 17 percent.

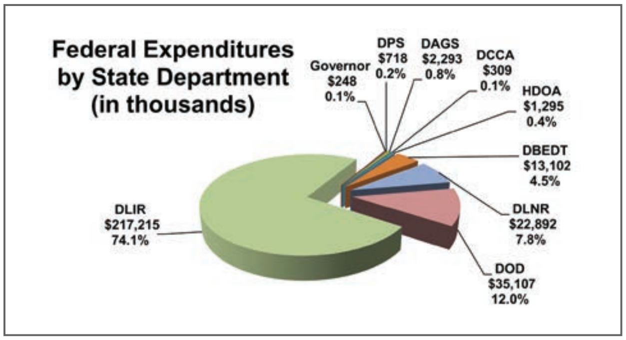
The largest expenses were for welfare at $3.3 billion or 31 percent, lower education at $2.8 billion or 26 percent, health at $900 million or 8 percent, higher education at $700 million or 7 percent, and general government at $700 million or 7 percent.

At June 30, 2016, the total assets and deferred outflows of resources of the State exceeded total liabilities and deferred inflows of resources, resulting in a net position of nearly $1.4 billion. Of this amount, $4.6 billion was for the State's net investment in capital assets, $2.9 billion was restricted by parties outside of the State (such as citizens, public interest groups, or the judiciary) and a negative $6.1 billion in unrestricted assets.

The State received an unmodified opinion from the auditors of Accuity LLP that the financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles.

Single Audit of Federal Financial Assistance Programs of the State of Hawai'i – June 30, 2016

This report includes the total Federal expenditures and findings related to only those departments that are included in the State of Hawai'i Single Audit of Federal Financial Assistance Programs for the fiscal year ended June 30, 2016. Federal expenditures totaled approximately $263.5 million. The auditors from Accuity LLP identified one material weakness and two significant deficiencies in internal controls over financial reporting. They also expressed a qualified opinion on certain major federal programs and identified six material weaknesses and ten significant deficiencies over compliance with major federal programs in accordance with the *Uniform Guidance**.



* The U.S. Office of Management and Budget's *Uniform Administrative Requirements, Cost Principles, and Audit requirements for Federal Awards*, located in Title 2, Part 200, Code of Federal Regulations (*Uniform Guidance).*

Department of Accounting and General Services, State Motor Pool Revolving Fund – June 30, 2016, Financial Statements

The fund reported total operating revenues of $2.5 million and total operating expenses of $3 million, resulting in a net loss of $500,000. Motor vehicle rentals represented 88 percent or $2.2 million of the fund's total operating revenue and motor vehicle repairs represented the remaining 12 percent or $300,000. Operating expenses were comprised of vehicle-related costs of $1.9 million and personnel services of $1.1 million. The fund received an unmodified opinion that the financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. The auditors from Egami & Ichikawa CPAs, Inc. reported no material weaknesses in internal control over financial reporting and no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards***.

Department of Accounting and General Services, State Parking Revolving Fund – June 30, 2016, Financial Statements

The fund reported total operating revenues of $3.8 million and total operating expenses of $4.4 million, resulting in a net operating loss of $600,000. Operating revenues consisted of parking assessments of $2.5 million, parking meter collections of $1 million, and traffic fines and other income of $300,000. Operating expenses consisted of depreciation of $1 million, personnel services of $1.7 million, repairs and maintenance of $900,000, and other expenses of $800,000. The fund received an unmodified opinion that the financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. The auditors from Egami & Ichikawa CPAs, Inc. reported no material weaknesses in internal control over financial reporting and no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

** The U.S. Government Accountability Office's *Government Auditing Standards* (*Government Auditing Standards*).

Department of the Attorney General – June 30, 2016, Financial Statements

The department reported total revenues of $88.3 million. Revenues include general revenues of $47.6 million, program revenues consisting of $17.2 million in charges for services, and $23.5 million in operating grants and contributions. The department reported $86.9 million in total expenses. Expenses include $55.6 million for general administrative and legal services, $18.7 million for child support enforcement, $6.1 million for crime prevention and justice assistance, and $6.5 million for Criminal Justice Data Center activities. Inflows and outflows of funds related to the department's Child Support Enforcement Agency (CSEA) program are accounted for separately in an agency fund. Normally, agency fund assets should be equal to agency fund liabilities, as the funds are held on behalf of others. However, the department continues to maintain a deficit balance of approximately $1.6 million at June 30, 2016. The department received an unmodified opinion that the financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. The department also received an unmodified opinion on its compliance with major federal programs in accordance with the *Uniform Guidance.* The auditors from Akamine, Oyadomari & Kosaki, CPA's, Inc. reported no material weaknesses in internal control over financial reporting. However, the auditors identified one significant deficiency in internal control over financial reporting that is required to be reported under *Government Auditing Standards*. Auditors reported no material weaknesses in internal control over compliance in accordance with the *Uniform Guidance*, but found that the deficit in the CSEA agency fund balance needed to be resolved.

Department of Education – June 30, 2016, Financial Statements

The department reported total revenues of $3.10 billion and total expenditures and net transfers of $2.68 billion, resulting in an increase in net position of nearly $418 million. Sources of revenues included $2.22 billion in state general fund appropriations, $539 million in non-imposed employee wages and fringe benefits, $265 million in operating grants and contributions, $8 million in capital grants and contributions, and $63 million in charges for services and net investment income. Expenses consisted of $2.50 billion for school-related costs, $68 million for state and school complex area administration, $47 million for public libraries, and $66 million for capital outlay. The department received an unmodified opinion that the financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. The department also received an unmodified opinion on its compliance with major federal programs in accordance with the *Uniform Guidance*. The auditors from N&K CPAs, Inc. reported no material weaknesses in internal controls over financial reporting that are required to be reported under *Government Auditing Standards*. However, the auditors identified two significant deficiencies in internal controls over financial reporting. There were no findings that were considered material weaknesses in internal control over compliance in accordance with the *Uniform Guidance.*

Department of Hawaiian Home Lands – June 30, 2016, Financial Statements

The department's total revenues exceeded total expenditures by $13.5 million. Total revenues were $68.6 million (program revenue of $40.9 million and State appropriations of $27.7 million) and expenses totaled $55.1 million. The department received an unmodified opinion that the financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. The department also received an unmodified opinion on its compliance with major federal programs in accordance with the *Uniform Guidance.* The auditors from Accuity LLP reported no material weaknesses in internal control over financial reporting and no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. There were no findings that were considered material weaknesses in internal control over compliance in accordance with the *Uniform Guidance*.

Department of Health – June 30, 2016, Financial Statements

The department reported total revenues of $775 million and total expenses of $711 million, resulting in an increase in net position of $64 million. Revenues consisted of $578 million from general revenues, $166 million from operating grants and contributions, and $31 million from service charges. Expenses consisted of $292 million for health resources, $301 million for behavioral health, $77 million for environmental health, and $41 million for general administration. The department received an unmodified opinion that the financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. The department received a qualified opinion on its compliance with certain major Federal programs in accordance with the *Uniform Guidance.* The auditors from N&K CPAs, Inc. identified one significant deficie ncy and no material weaknesses in internal control over financial reporting that are required to be reported under *Government Auditing Standards*. The auditors also identified one material weakness and one significant deficiency in internal control over compliance in accordance with the *Uniform Guidance.*

Department of Health, Drinking Water Treatment Revolving Loan Fund – June 30, 2016, Financial Statements

The fund reported total operating revenues of $2.7 million and total operating expenses of $5.2 million, resulting in an operating loss of $2.5 million. The fund also received nonoperating revenues of $27.4 million, resulting in a net increase in net position of $24.9 million. The fund's total assets and deferred outflows of resources was $190.4 million, which included $62.2 million in current assets, $127.1 million in loans receivable (net of current maturities), $720,000 in net capital assets, and $341,000 in deferred outflows of resources. The fund received an unmodified opinion that the financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. The auditors from N&K CPAs, Inc. reported no material weaknesses in internal control over financial reporting and no instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards.* The auditors determined that the fund complied, in all material respects, with the types of compliance requirements that could have a direct material effect on its program.

Department of Health, Water Pollution Control Revolving Fund – June 30, 2016, Financial Statements

The fund reported total operating revenues of $3.1 million and total operating expenses of $9.8 million, resulting in an operating loss of

$6.7 million. The fund also received nonoperating revenues of $26.2 million, resulting in a net increase in net position of $19.5 million. The fund's total assets and deferred outflows of resources, was $506.3 million, which included $184.6 million in current assets, $321.3 million in loans receivable (net of current maturities), $3,000 in net capital assets, and $400,000 in deferred outflows of resources. The fund received an unmodified opinion that the financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. The auditors from N&K CPAs, Inc. reported no material weaknesses in internal control over financial reporting and no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. The auditors determined that the fund complied, in all material respects, with the types of compliance requirements that could have a direct and material effect on its program.

Department of Human Services – June 30, 2016, Financial Statements

The department reported total revenues of $3.52 billion and total expenses of $3.5 billion. Revenues consisted of $1.24 billion of state allotments, net of lapsed amounts plus non-imposed employee fringe benefits, and $2.28 billion in program revenues which consist of operating grants from the federal government. Revenues from these federal grants paid for 65 percent of the cost of the department's activities. Health care and general welfare assistance programs comprised 72.8 percent and 20.5 percent, respectively, of the total cost. The department received an unmodified opinion that the financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. The auditors from KMH LLP expressed a qualified opinion on certain major federal programs and identified 13 material weaknesses, 3 significant deficiencies, and 3 other matters in internal control over compliance that are required to be reported in accordance with the *Uniform Guidance* and *Government Auditing Standards*.

Department of Transportation, Administration Division – June 30, 2016, Financial Statements

The division reported total revenues of $26.6 million and total expenses of $22 million, and transfers to other DOT divisions of $6.8 million, resulting in a decrease in net position of $2.2 million. Revenues primarily consisted of $17.7 million from assessments, $7.7 million from federal grants, and $1.2 million from other revenue sources. The division received an unmodified opinion that the financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. The division also received an unmodified opinion on its compliance with major federal programs in accordance with the *Uniform Guidance*. The auditors from Egami & Ichikawa, CPAs, Inc. reported no material weaknesses in internal control over financial reporting and no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. There were no findings that were considered material weaknesses in internal control over compliance in accordance with the *Uniform Guidance.*

Department of Transportation, Airports Division – June 30, 2016, Financial Statements

The division reported total revenues of $473 million and total expenses of $383 million, resulting in income before capital contributions of $90 million. Revenues consisted of $146 million in concession fees, $66 million in landing fees, $131 million in rentals, $108 million in facility charges, $4 million in debt service support charges, $2 million in federal operating grants, and $16 million in interest income and other income. Expenses consisted of $237 million for operations and maintenance, $99 million in depreciation, $18 million for administration, and $29 million in interest and other expenses. The division received an unmodified opinion that the financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. The division also received an unmodified opinion on its compliance with major federal programs in accordance with the *Uniform Guidance.* The auditors from KPMG LLP reported no material weaknesses in internal control over financial reporting and no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. There were no findings that were considered material weaknesses in internal control over compliance in accordance with the *Uniform Guidance*.

Department of Transportation, Harbors Division – June 30, 2016, Financial Statements

DOT–Harbors reported total revenues of $131.8 million and total expenses of $93.1 million, resulting in a net increase in net position of $38.7 million. Total revenues consisted of $106 million in services, $23.3 million in rentals, $800,000 in other revenues, and $1.7 million in interest income. The division received an unmodified opinion that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. The auditors from KKDLY LLC reported no material weaknesses in internal control over financial reporting and no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Department of Transportation, Highways Division – June 30, 2016, Financial Statements

DOT–Highways reported total revenues of $475 million, total expenses of $469 million, and transfers of $2 million to other state departments for the payment of debt service on general obligation bonds and for capital improvement projects, resulting in an increase in net position of $4 million. Revenues consisted of $222 million in taxes, $195 million in grants and contributions primarily from the Federal Highway Administration, $55 million in charges for services, and $3 million in investment income and other. Expenses consisted of $178 million for operations and maintenance, $203 million in depreciation, $70 million for administration and other, and $18 million in interest. The division received an unmodified opinion that the financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. The division also received an unmodified opinion on its compliance with major federal programs in accordance with the *Uniform Guidance.* The auditors from KKDLY LLC reported no material weaknesses and no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.* They identified two significant deficiencies in internal control over compliance in accordance with the *Uniform Guidance.*

Hawai‘i Community Development Authority – June 30, 2016, Financial Statements

The authority reported total revenues of $10.4 million and total expenses of $7.8 million, resulting in an increase in net position of $2.6 million. Revenues consisted of leasing and management of $1.7 million, community redevelopment of $7.2 million, investment earnings of $100,000, and State appropriations, net of lapses, of $1.4 million. The authority received an unmodified opinion that the financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. The auditors from CW Associates, A Hawaii Certified Public Accounting Corporation reported no material weaknesses in internal control over financial reporting and no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Hawai‘i Employer-Union Health Benefits Trust Fund – June 30, 2016, Financial Statements

The Employer-Union Health Benefits Trust Fund (EUTF) has three types of funds: an enterprise fund, an agency fund, and an Other Post-Employment Benefits (OPEB) trust fund. <u>Enterprise Fund:</u> For the fiscal year ended June 30, 2016, net operating revenues totaled $82.8 million and operating expenses totaled $97.6 million, resulting in net operating loss of $14.8 million. Enterprise Fund net operating revenues included $86.5 million related to premium revenue self-insurance and $3.7 million in experience overpayments loss. <u>Agency Fund</u>: As of June 30, 2016, the EUTF’s Agency Fund held $198.7 million in assets, which included $121 million in cash and investments, $69.5 million in receivables, and $8.2 million in deposits with insurance carriers. Agency Fund liabilities totaled $198.7 million, of which $162.3 million was held on behalf of employers for retiree benefits. <u>OPEB Trust Fund</u>: For the fiscal year ended June 30, 2016, total additions were $366.3 million, of which $338.5 million were from employer contributions and $27.8 million were from investment earnings. As of June 30, 2016, the EUTF’s OPEB Trust Fund net position balance totaled $1.21 billion. The EUTF received an unmodified opinion that the financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. The auditors from

KKDLY LLC reported no material weaknesses in internal control over financial reporting and no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Hawai‘i Housing Finance and Development Corporation – June 30, 2016, Financial Statements

The corporation reported total program revenues of $75 million and total program expenses of $37 million. The corporation reported total assets and deferred outflows of resources in excess of $1 billion and total liabilities and deferred inflows of resources of $386 million. Total assets and deferred outflows of resources included cash of $317 million, investments of $78 million, notes and loans receivable of $546 million, capital assets of $91 million, and other assets of $68 million. Total liabilities and deferred inflows of resources included revenue bonds payable of $300 million, unearned income of $22 million, estimated future costs of development of $35 million, and other liabilities of $23 million. The corporation received an unmodified opinion that the financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. The corporation also received an unmodified opinion on its compliance with major federal programs in accordance with the *Uniform Guidance.* The auditors from Accuity LLP reported no material weaknesses in internal control over financial reporting and no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. There were no findings that were considered material weaknesses in internal control over compliance in accordance with the *Uniform Guidance.*

Hawai‘i Public Housing Authority – June 30, 2016, Financial Statements

The authority reported total revenues of $134 million and total expenses of $133 million, resulting in an increase in net position of $1 million. Sources of revenues included $21 million in charges for services, $87 million in operating grants and contributions, $10 million in capital grants and contributions, and $16 million in state appropriations, net of lapsed funds. The authority received an unmodified opinion that the financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. The authority received a qualified opinion on one of its major federal programs in accordance with the *Uniform Guidance*. The auditors from KMH LLP reported no deficiencies in internal control over financial reporting that were considered to be material weaknesses and no instances of noncompliance and other matters that are required to be reported under *Government Auditing Standards*. They identified one material weakness in internal controls over compliance in accordance with the *Uniform Guidance.*

Hawai‘i Tourism Authority – June 30, 2016, Financial Statements

The authority reported total revenues of approximately $121.6 million, along with $5 million in transfers from other State departments, and total expenses of approximately $102.3 million. Revenues consisted primarily of $108.5 million from the Transient Accomodtions Tax (TAT) and $12.7 million from charges for services. Interest earnings totaled $300,000, and the authority experienced a $100,000 net increase in the fair value of investments. The authority received an unmodified opinion that the financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. The auditors from CW Associates, A Hawaii Certified Public Accounting Corporation reported no material weaknesses in internal control over financial reporting and no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

O‘ahu Metropolitan Planning Organization – June 30, 2016 Financial Statements

O‘ahu Metropolitan Planning Organization (OMPO) reported total revenues of $1.2 million and total expenses of $1.2 million, resulting in no change in net position. Revenues consisted of $979,000 from federal grants and $245,000 from State and City contributions. Total expenses included $35,000 for transportation forecasting and long-range planning, $139,000 for short-range transportation system and demand management planning, $116,000 for transportation monitoring and analysis, and $906,000 for program coordination and administration. OMPO received an unmodified opinion that the financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. The auditors from Choo, Osada & Lee, CPAs, Inc. identified five significant deficiencies in internal control over financial reporting that are required to be reported under *Government Auditing Standards.* They also expressed a qualified opinion on certain major federal programs and identified one material weakness in internal control over compliance with major federal programs in accordance with the *Uniform Guidance.*

Stadium Authority – June 30, 2016, Financial Statements

The authority reported total operating revenues of $6.8 million and total operating expenses of $10.7 million, resulting in an operating loss of $3.9 million. Operating revenues primarily consisted of $4.5 million from facility rental charges and $1 million from food and beverage concessionaire commissions. Other operating revenues included $900,000 in parking fees and $400,000 in advertising and other revenues. The authority's operating loss was offset by $6.9 million in capital contributions, which represents the portion of Aloha Stadium capital improvement costs that were paid by the State of Hawai‘i. The authority received an unmodified opinion that the financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. The auditors from KKDLY LLC reported no material weaknesses in internal control over financial reporting and no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Employees' Retirement System of the State of Hawai‘i – June 30, 2016, Financial Statements

Employees' Retirement System (ERS) reported total net additions of $824 million. Additions consisted of $993 million from contributions decreased by $169 million in net investment losses. Total deductions of $1.26 billion consisted of $1.23 billion for benefit payments, $14 million for administrative expenses, and $13 million for refund of member contributions. As of June 30, 2016, assets totaled $15.77 billion and liabilities totaled $1.70 billion, leaving a net position balance of $14.07 billion. Total assets included investments of $15.36 billion, receivables of $332 million, cash of $72 million, and net equipment of $6 million. ERS received an unmodified opinion that the financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. The auditors from KPMG LLP reported no material weaknesses in internal controls over financial reporting and no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Hawai ‘i Convention Center – December 31, 2016, Special-Purpose Financial Audit and Financial Statements

The center reported total operating revenues of $16 million and total operating expenses of $19.3 million, which resulted in an operating loss of $3.3 million. Revenues consisted primarily of $11.5 million from food and beverage, $2.1 million from events, $2.2 million from rental income, and $200,000 from other operating revenues. The center also received $2.7 million in net contributions from the Hawai‘i Tourism Authority. Expenses consisted of $6.2 million for payroll, $3.9 million for building-related expenses, $4 million for cost of goods sold, and $5.2 million for other costs. The center received an unmodified opinion from the auditors of CW Associates, A Hawaii Certified Public Accounting Corporation that the financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles.

Office of the Auditor Appropriations and Expenditures on a Budgetary Basis for the Fiscal Year Ended June 30, 2017

Appropriations

Act 1, SLH 2016 (Operations)	$2,828,549
Act 1, SLH 2016 (Special Studies)	150,000
Act 1, SLH 2016 (Audit Revolving Fund)	2,800,000
Act 1, SLH 2017 (Accrued Vacation Payments)	68,106
Act 66, SLH 2016 (Public Employment Cost Items)	197,664
Act 188, SLH 2016 (Workers' Compensation Closed Claims Study)	150,000
	$6,194,319

Expenditures

Staff salaries	$2,127,716
Contractual services (Operational)	46,441
Other expenses	121,590
Special studies	0
Contractual services (Audit Revolving Fund)	2,800,000
Workers' Compensation Closed Claims Study	0
	$5,095,747

Excess of Appropriation over Expenditures

Act 1, SLH 2016 (Operations)	$733,098
Act 1, SLH 2016 (Special Studies)	150,000
Act 1, SLH 2016 (Audit Revolving Fund)	0
Act 188, SLH 2016 (Workers' Compensation Closed Claims Study)	150,000
Act 66, SLH 2015 (Public Employee Cost Items)	0
Act 1, SLH 2017 (Accrued Vacation Payments)	65,474
	$1,098,572

OFFICE OF THE AUDITOR
STATE OF HAWAIʻI

Constitutional Mandate

Pursuant to Article VII, Section 10 of the Hawaiʻi State Constitution, the Office of the Auditor shall conduct post-audits of the transactions, accounts, programs and performance of all departments, offices and agencies of the State and its political subdivisions.

The Auditor's position was established to help eliminate waste and inefficiency in government, provide the Legislature with a check against the powers of the executive branch, and ensure that public funds are expended according to legislative intent.

Hawaiʻi Revised Statutes, Chapter 23, gives the Auditor broad powers to examine all books, records, files, papers and documents, and financial affairs of every agency. The Auditor also has the authority to summon people to produce records and answer questions under oath.

Our Mission

To improve government through independent and objective analyses.

We provide independent, objective, and meaningful answers to questions about government performance. Our aim is to hold agencies accountable for their policy implementation, program management, and expenditure of public funds.

Our Work

We conduct performance audits (also called management or operations audits), which examine the efficiency and effectiveness of government programs or agencies, as well as financial audits, which attest to the fairness of financial statements of the State and its agencies.

Additionally, we perform procurement audits, sunrise analyses and sunset evaluations of proposed regulatory programs, analyses of proposals to mandate health insurance benefits, analyses of proposed special and revolving funds, analyses of existing special, revolving and trust funds, and special studies requested by the Legislature.

We report our findings and make recommendations to the governor and the Legislature to help them make informed decisions.

For more information on the Office of the Auditor, visit our website:
http://auditor.hawaii.gov

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