STATE OF HAWAIʻI
OFFICE OF THE AUDITOR
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DEPT. COMM. NO. 363

February 8, 2022

VIA EMAIL

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

VIA EMAIL

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

Re: ***2021 Annual Report***

Dear President Kouchi and Speaker Saiki:

We are attaching a copy of our *2021 Annual Report*, which has been uploaded to the Legislature's we-based application. This report includes summaries of the performance and financial audit reports that were issued since July 1, 2020.

The report is accessible through our website at:

https://files.hawaii.gov/auditor/Reports/2021/2021AnnualReport.pdf.

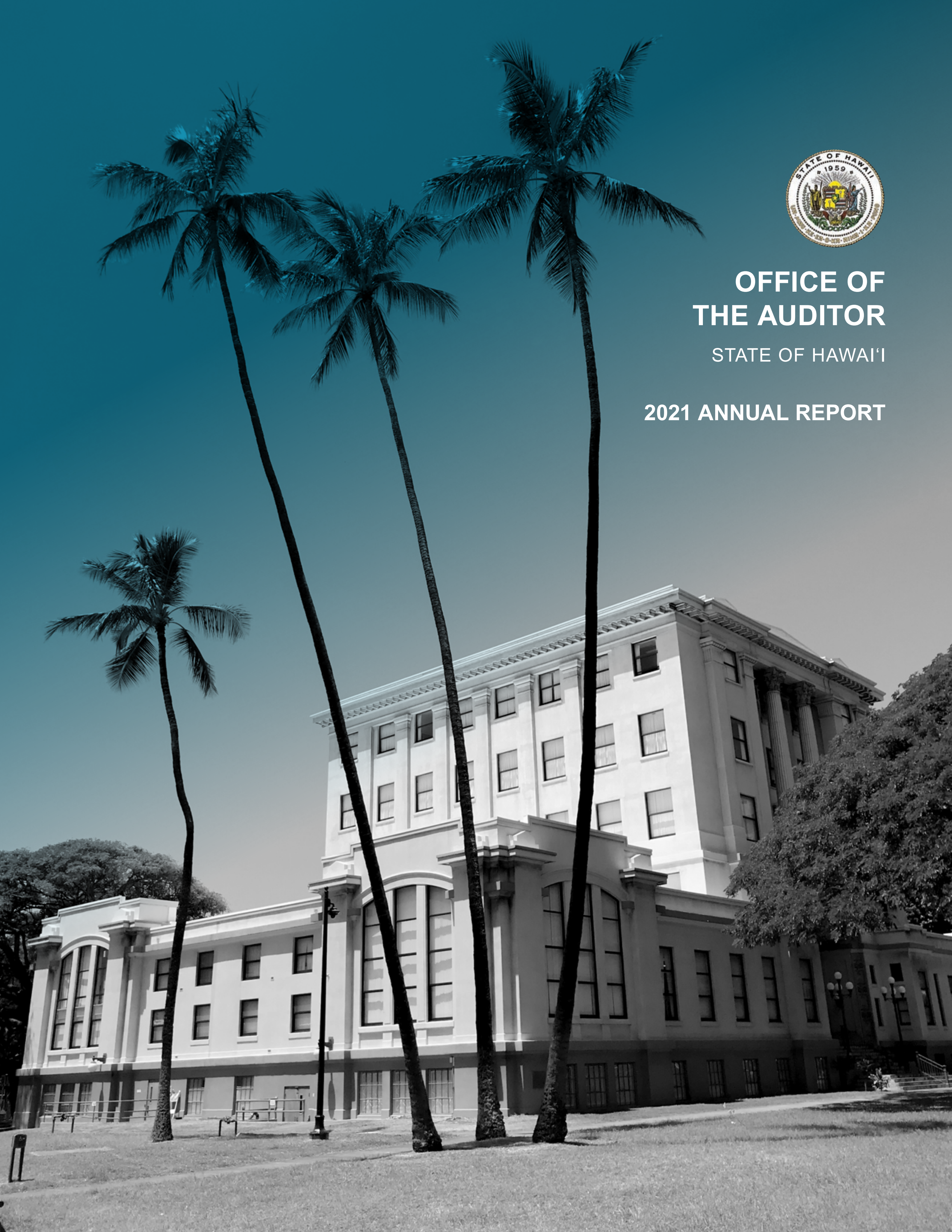
If you or other Legislators would like a printed version of the report, please let me know.

Very truly yours,

Leslie H. Kondo
State Auditor

LHK:emo

Attachments
ec/attach: Members of the Senate
Members of the House of Representatives
Carol Taniguchi, Senate Chief Clerk
Brian Takeshita, House Chief Clerk



OFFICE OF THE AUDITOR

STATE OF HAWAIʻI

2021 ANNUAL REPORT

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:
https://auditor.hawaii.gov

PHOTO: OFFICE OF THE AUDITOR

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Message from the Auditor

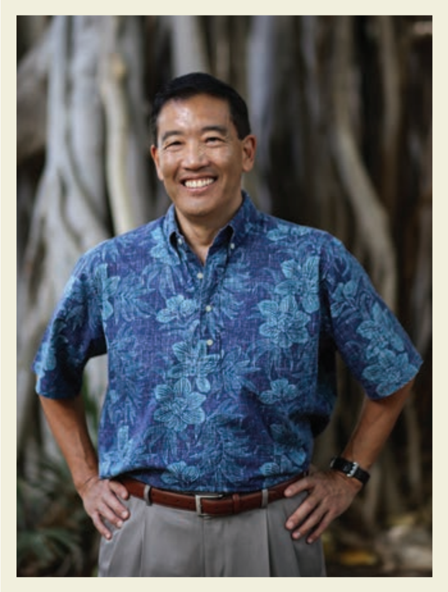


PHOTO: MICHAEL KEANY

WELCOME to this year's annual report, which highlights work the Office of the Auditor conducted in 2021.

We entered 2021 hoping to see the end of the COVID-19 pandemic, with high expectations that vaccinations and safe practices would mitigate the virus's threat and allow us to resume in-person audit activities – field visits to observe auditees at work or interviews conducted in offices and meeting rooms instead of virtually. Our staff made a relatively easy transition to remote working conditions in 2020, but a full return to the office in 2021 was frustrated by new variants, a summer surge that overwhelmed hospitals, and pandemic-related restrictions.

These ongoing challenges have not impaired our ability to conduct meaningful and constructive audits or our determination to continue doing so. We began the year issuing a report on the Agribusiness Development Corporation (ADC), which had not been audited since it was established by the 1994 Legislature. The Legislature intended ADC to help develop a new local agriculture industry as sugar and pineapple plantations closed up shop, leaving vast acres of land and infrastructure that could be converted for use by large-scale commercial agribusinesses, whose exports would presumably fill the economic void created by the plantation industry's demise. We found ADC has struggled to understand its mission from the start, and today, that misunderstanding continues. Instead of an economic development organization, one with "superpowers" to develop an aggressive and dynamic agribusiness development program, we found an organization that instead has become a landowner, struggling to license its lands to farmers. We found that, after almost 30 years, ADC has done little to fill the economic void created by the closure of the plantations.

Mission of the Office of the Auditor

Improving government through independent and objective analyses.

The audit of ADC was conducted at the direction of the Legislature, and we expected the Legislature would schedule briefings to discuss the audit findings. However, we were surprised when the House of Representatives established a formal investigative committee to follow up on this and another audit dealing with public lands, issuing subpoenas to compel sworn witness testimony and disappointed when it became apparent that certain members of the investigative committee seemed more interested in investigating the Auditor than addressing our findings, many of which have been corroborated by years of media coverage, the University of Hawai'i Economic Research Organization's own assessment of ADC, and a brush fire that laid bare our concerns about ADC's ability to secure its vacant lands known to harbor criminal activity.

The political interference has been troubling, but has also affirmed our need to remain non-partisan, independent, and objective; to produce work that holds up under intense scrutiny; and to maintain integrity and adhere to the U.S. Government Accountability Office's auditing standards so the Office of the Auditor can continue its efforts to improve state government.

I would be remiss if I did not recognize the dedicated and hard-working employees of the Office the Auditor. The work you do and the public service you perform is important. You have my thanks.

PHOTO: HAWAI'I STATE ARCHIVES, PHOTOGRAPH COLLECTION, PP-28-1-004.

Non-partisan, Independent, and Objective

We are committed to our mission of improving government through independent and objective analyses.

DELEGATES TO Hawai'i's first constitutional convention in 1950 recognized the importance of keeping the Auditor free from political influence, writing safeguards into the State Constitution to eliminate the risk of the Auditor being used as a political tool, weapon, or shield.

Over the past year, however, as the COVID-19 pandemic continued to present challenges, the Office of the Auditor found itself fending off another threat – an onslaught of interference by leaders in the House of Representatives that, under various pretenses, have sought to strip the Auditor of his independence, if not his position.

In January, the House Speaker unilaterally created an Auditor Working Group to "audit the Auditor," which sought to discredit him and his office, for reasons that have not been disclosed. The working group published its blistering critique of the Office of the Auditor's operations in April without observing how the office conducts its work, interviewing the Auditor or current staff, or even offering a chance to respond. An investigative committee formed by the House of Representatives on the last day of the past Legislative session purportedly to follow-up on audits of two agencies has gone well outside its legitimate scope to continue the onslaught on the office. Things escalated to the point that the Auditor was at risk of being declared by the investigative committee of being in criminal contempt, requiring the office to procure private legal counsel and to file a motion to quash a subpoena commanding the Auditor to produce the office's confidential working papers.

As a non-partisan office that relies on documented facts and observations to conduct our work, auditors

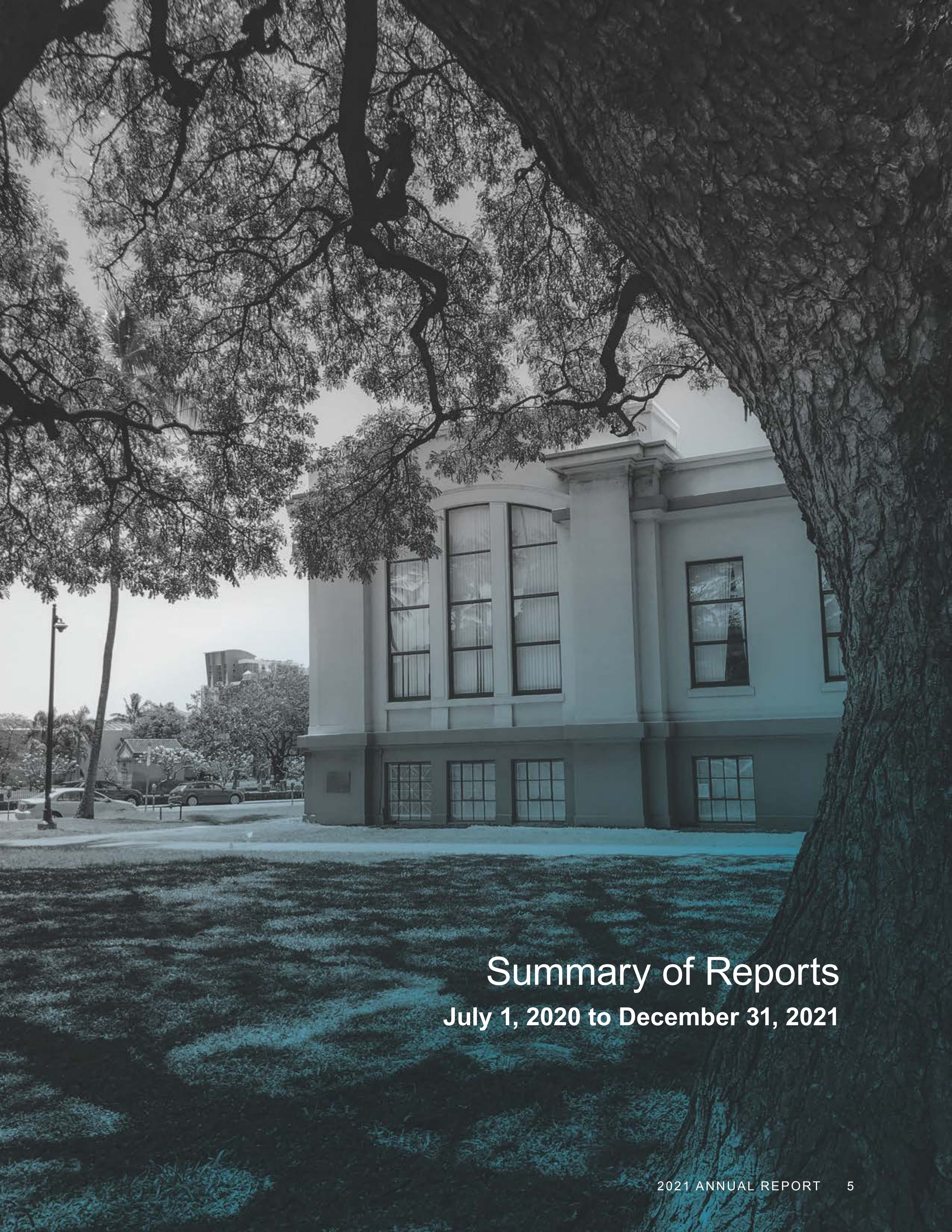
It takes fortitude and a great deal of due diligence to speak truth to power, particularly for an audit office that regularly says things the powers-that-be may be unhappy to hear.

are ill-suited to the political arena. Auditors color inside the lines, working with facts and relying on actual evidence to ensure our findings and analyses are supported, meaningful, constructive, and fair. The Office of the Auditor ensures this by holding itself to government auditing standards. We publish only relevant findings that we can support through documented evidence and observations.

It takes fortitude and a great deal of due diligence to speak truth to power, particularly for an audit office that regularly says things the powers-that-be may be unhappy to hear. But we have a series of checks in place to instill confidence in our audits. We identify an auditee's key activities and assess "risks" associated with those activities to determine the objectives for the audit. Those audit objectives are, in essence, the questions we intend the audit to answer. This provides us with a roadmap that not only points us in the direction of where we should go, but also stakes out the boundaries necessary to keep the audit on track. We simply do not have the staff or the time to assess every aspect of an auditee's activities. Once the audit team has done its work, the draft report goes through a quality control process that involves an independent review by an analyst who was not involved in the audit who confirms the evidentiary support for each sentence. And, we are peer-reviewed by counterparts from other states every three years to confirm that our work complies with *Government Auditing Standards* developed by the U.S. Government Accountability Office (GAO). In 2019, the most recent peer review, we received the highest rating based on the peer review team's determination that, among other things, our staff is competent, with skills kept current through continuing professional development requirements. Nevertheless, the investigative committee failed to recognize these accountability measures.

More threats to the Auditor and his office came in the form of legislation introduced during the 2021 session, which took aim at the Office of the Auditor's budget, the Auditor's salary, and perhaps most alarmingly, the autonomy of not only the Auditor's office, but four other oversight agencies as well, which would have been consolidated under a single Office of Public Accountability controlled by the Legislature. GAO's government auditing standards warn that measures like these present external threats to the Auditor's independence and ability to provide objective analyses without fear of retribution; had the bills passed, they would have had a chilling effect on oversight and accountability efforts throughout state government. The bills were introduced by the House Speaker and the House Majority Leader, who the Speaker later appointed to chair the investigative committee.

The State Constitution intended the Office of the Auditor to be non-partisan and independent, which remains the case in spite of lawmakers' attempts to undermine our efforts to provide transparency and hold government accountable for how it provides services, spends taxpayer dollars, and manages state-owned resources. We are committed to our mission of improving government through independent and objective analyses. And as we move forward, we will continue to hold agencies accountable for their use of public resources and recommend ways agencies can improve their operations, efficiently use government resources, and effectively serve the citizens of our great state.



Summary of Reports

July 1, 2020 to December 31, 2021

ILLUSTRATION: ISTOCK.COM

COVID-19 SPECIAL PROJECTS

Report on the Department of Health's Contact Tracing Efforts

Report No. 20-10, August 2020

As Hawai'i's total number of COVID-19 cases climbed into triple-digits at the end of July 2020, a growing sense of urgency intensified scrutiny of the Department of Health's (DOH) contact tracing program. Leadership of the department's contact tracing efforts had been heavily criticized by the public and government officials, including the Lieutenant Governor and a member of Hawai'i's Congressional delegation. We intended to report on DOH's contact tracing process, primarily to sort through the varying, confusing, and often conflicting information and to provide a clearer, objective, and up-to-date understanding of the department's efforts.

OUR EFFORTS to produce the report we intended were hampered by a lack of access to key personnel and timely data. For example, instead of cooperation and assistance from DOH, we encountered barriers, delays, and ultimately were denied access to those responsible for leading the department's contact tracing efforts: the Disease Outbreak Control Division (DOCD) Chief and the Disease Investigation Branch Chief, who had recently taken over that task. While the Health Director spoke with us, failing to respond to numerous requests until a few hours before the interview, he repeatedly directed us to speak with the DOCD Chief for answers to specific questions about the department's contact tracing process. At the end of our discussion, the Health Director said he would ask the DOCD Chief to talk to us and that he would provide us with documents we had requested in multiple letters to him, including the department's policies and procedures relating to contact tracing. However, the DOCD Chief did not contact us, and the Health Director did not provide the requested documents.

As a result, instead of the report we had planned, Report No. 20-10 provided a general overview of contact tracing and specific details about Hawai'i's contract tracing program when possible.

Our efforts to produce the report we intended were hampered by a lack of access to key personnel and timely data.

As a result, instead of the report we had planned, Report No. 20-10 provided a general overview of contact tracing and specific details about Hawai'i's contract tracing program when possible.

PHOTO: ISTOCK.COM

COVID-19 SPECIAL PROJECTS

Report on the Hawai‘i State Department of Education’s Policies and Procedures for Handling Positive COVID-19 Test Results in Staff, Teachers, and Students

Report No. 20-11, August 2020

On August 13, 2020, the Senate Special Committee on COVID-19 asked the Auditor to report on protocols currently employed by the Hawai‘i State Department of Education (DOE) to address the coronavirus that causes the disease COVID-19. The report specifically discussed DOE's policies and procedures regarding when teachers, other school employees, and students are confirmed positive for COVID-19. As we noted throughout the report, we received no cooperation from DOE, limiting our review to policies and procedures that are publicly available on DOE's website and elsewhere online.

WHILE DOE did not provide us with documents nor make staff available for interviews, the information we found on the department's website appeared to include policies and procedures that guide DOE's response to positive COVID-19 cases involving school employees and students. We summarized the documents we were able to locate, primarily DOE's *Pandemic Contagious Virus Plan*; *Emergency Operations Plan*; *Return to Learn: School Reopening Plan*; *Health and Safety Handbook*; and *Principal Handbook.*

We also summarized policies and procedures for communications, including disseminating information about positive COVID-19 cases. Without interviewing DOE staff, however, we were unable to determine if DOE was following the guidelines or if there are other policies and procedures that guide its actions.

However, we had numerous questions about the policies and procedures outlined in the documents, some of which appeared outdated and incomplete. We also found inconsistencies in the guidance, which is discussed in detail in the report.

We made a number of recommendations for DOE, including updating its policies and procedures and ensuring they remain consistent with current state and county policies, obtaining guidance from the Department of the Attorney General about privacy laws regarding reporting of COVID-19 cases, providing more detail about cases by school campus, and providing complete and timely information to the public about its COVID-19 response, including any changes made to its policies and procedures, such as any made to address positive cases on school campuses.

PHOTO: OFFICE OF THE AUDITOR

Follow-Up on Recommendations from Report No. 17-05, *Audit of Hawai‘i Department of Agriculture’s Plant Quarantine Branch*

Report No. 20-12, September 2020

Section 23-7.5, Hawai‘i Revised Statutes, 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 seven recommendations made to the Hawai‘i Department of Agriculture’s Plant Quarantine Branch (PQB) in Report No. 17-05, Audit of Hawai‘i Department of Agriculture’s Plant Quarantine Branch*, which was published in July 2017.*

IN REPORT NO. 17-05, *Audit of Hawai‘i Department of Agriculture’s Plant Quarantine Branch*, we found that, contrary to claims made by the Hawai‘i Department of Agriculture (HDOA), the branch did not assess the risk of invasive species to the state or the effectiveness of its inspection program using up-to-date data. We noted that PQB lacked data gathering and data analysis functions necessary to actively and continuously assess risks from invasive species. Invicta, the branch’s central database at the time, did not perform its core functions and was considered by PQB staff to be unreliable and cumbersome to use. The system also did not communicate with other PQB databases. We found that information collected by inspectors was inconsistent, incomplete, and 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. We also found that PQB lacked the organizational framework necessary to manage and communicate risks from the different types of invasive species. As a result of this lack of organizational framework, the only official guidance inspectors received from the department consisted of the Hawai‘i Revised Statutes and PQB’s manual of standard operating procedures, which the branch had not fully updated since 1989.

Our follow-up efforts were limited to reviewing and reporting on the implementation of our audit recommendations. We did not explore new issues or revisit old ones that did not relate to the original recommendations. Report No. 20-12 detailed the audit recommendations made in Report No. 17-05 and the current status of each recommendation based on our review of information and documents provided by HDOA.

Our follow-up on the implementation of recommendations made in Report No. 17-05, conducted between November 2019 and July 2020, included interviews of selected personnel, examining relevant documents and records, and evaluating whether and to what extent HDOA’s actions appeared to address our recommendations. We found that PQB implemented one recommendation, partially implemented five recommendations, and has not implemented one recommendation.

PHOTO: ISTOCK.COM

COVID-19 SPECIAL PROJECTS

Limited Scope Review of the State of Hawai‘i’s Mandatory Travel Self-Quarantine Program

Report No. 20-13, October 2020

At the Senate Special Committee on COVID-19’s request, we performed a limited scope review of the travel self-quarantine program. Our report included a high-level analysis of the airport screening process for trans-Pacific and interisland arrivals, the web-based Safe Travels program that collects travelers’ health and trip details and makes the information available to those responsible for ensuring compliance, enforcement efforts, and both near-term and long-range planning. It also offered recommendations aimed at providing oversight and improving coordination and communication among the many agencies charged with developing, operating, and enforcing the travel self-quarantine mandate.

THE TRAVEL self-quarantine program is a multiagency effort, pulling together the Department of Transportation-Airports Division (DOT-Airports), the Hawai‘i Tourism Authority (HTA), the Office of Enterprise Technology Services (ETS), the Hawai‘i Emergency Management Agency, the Hawai‘i National Guard, the Department of the Attorney General, and county law enforcement, as well as the Department of Health (DOH). While the Incident Commander was responsible for overseeing the State’s overall response to the COVID-19 pandemic, we could not identify any individual who was tasked with operational oversight over the travel quarantine component of the State’s response and was familiar with all aspects of the program.

Rather, we discovered each state and county agency was generally operating in its own “silo,” focused on a specific function and not necessarily considering the big picture. For example, ETS created the web-based Safe Travels platform to expedite the airport screening process led by DOT-Airports, automate compliance checks previously performed by HTA, and help county police departments enforce the self-quarantine requirements. In practice, though, at the time of our report, Safe Travels had not eliminated the need for airport screeners to manually verify health and trip information that passengers were required to provide on the State’s digitized health and travel form prior to departure. Automated emails and text messages that remind all people in self-quarantine to check in daily had replaced a 100-person call center that reached only 10 percent of those in quarantine, but did not include location information to confirm that the person is checking in from their designated self-quarantine location.

Generally, we found information was not flowing smoothly between the state and county agencies involved in different aspects of the program. As a result, the program was hampered by a lack of oversight and the absence of a defined organizational structure to effectively and efficiently manage every piece of the process, starting from screening at the airports to enforcement of the quarantine requirement. Instead, the apparent delegation of authority to agencies to develop their own processes to support their responsibilities relating to the travel self-quarantine program created inefficiencies and other concerns that if unaddressed will continue to hurt the effectiveness of the program.

PHOTO: ISTOCK.COM

COVID-19 SPECIAL PROJECTS

Limited Scope Review of the State's Oversight of Moneys Received Through the Coronavirus Relief Fund

Report No. 20-14, October 2020

At the Senate Special Committee on COVID-19's request, we initiated this limited scope review of the oversight of $862.8 million the State of Hawai'i received through the Coronavirus Relief Fund (CRF). The fund was established by the Coronavirus Aid, Relief, and Economic Security (CARES) Act to provide direct assistance to state, local, and tribal governments to address costs associated with the current public health emergency. Our review included those funds the State distributed to the counties of Hawai'i, Maui, and Kaua'i as well as to subrecipient organizations that are implementing state and county programs using CRF moneys.

HAWAI'I RECEIVED $1.25 billion through the CRF, with $862.8 million distributed to the State and $387.2 million awarded directly to the City and County of Honolulu. In April 2020, the Legislature appropriated $226.8 million of the State's portion, sending $80 million to the County of Hawai'i, $66.6 million to the County of Maui, and $28.7 million to the County of Kaua'i for their respective COVID-19 responses. It also appropriated $40 million to the Department of Defense, $9.5 million to the Department of Labor and Industrial Relations, and $2 million to the Department of Human Services for their respective COVID-related efforts. The remaining $636 million was deposited into the State's Emergency and Budget Reserve Fund.

When it reconvened in June 2020, the Legislature passed a bill that amended the state executive budget to, among other things, appropriate the CARES Act moneys that had been deposited into the State's Emergency and Budget Reserve Fund to address additional needs created by the COVID-19 pandemic. For each appropriation of CRF moneys, the bill, which became Act 9, Session Laws of Hawai'i 2020, reads: "On December 28, 2020, any unexpended funds shall be transferred to the unemployment compensation trust fund established under section 383-121, Hawai'i Revised Statutes."

The Governor line-item vetoed appropriations totaling $321 million, $230 million of which had been earmarked for additional unemployment benefits. He has since redirected the $321 million to pay for other COVID-19-related costs, including support for new initiatives such as the Hawai'i Restaurant Card Program. The Governor also announced that he intends to use any unspent funds to repay a U.S. Department of Labor loan the State used to pay unemployment benefits. A table on page 3 of Report No. 20-14 summarized the Legislature's appropriation of the $862.8 million in CRF moneys received by the State and the appropriations vetoed and reduced by the Governor.

Our review found that the State relied on subrecipients of federal funds to monitor themselves, and the Department of Budget and Finance (B&F) did not oversee the expenditure of CRF moneys. We also found that monitoring and tracking of CRF moneys were inconsistent, raising concerns about the State's ability to distribute the funds in a proper and timely manner. In addition, inconsistencies in information provided by the Governor and data reported by B&F raises questions about how much has been encumbered or expended.

PHOTO: OFFICE OF THE AUDITOR

Report on the Implementation of State Auditor's Recommendations 2015 – 2018

Report No. 20-15, November 2020

This is a report on the follow-up reviews of state departments and agencies' implementation of audit recommendations contained in audits issued in calendar years 2015–2018. We conducted the follow-ups pursuant to section 23-7.5, Hawai'i Revised Statutes, which requires the Auditor to report to the Legislature on each recommendation that the Auditor has made that is more than one year old and that has not been implemented by the audited agency.

EVERY YEAR, we follow up on recommendations made in our audit reports. We ask affected agencies to provide us with the status of their implementation of the recommendations made in our reports starting a year after the report was issued. After two or three years, we conduct a more rigorous follow-up review. Those reviews, which we refer to as "active reviews," include interviewing selected personnel from the agency and examining the agency's relevant policies, procedures, records, and documents to assess whether its actions fulfilled our recommendations. Our efforts are limited to reviewing and reporting on an agency's implementation of recommendations made in the original audit report. We do not explore new issues or revisit issues that do not relate to our original recommendations.

From 2015 to 2018, we made 190 actionable audit recommendations, of which the affected agencies reported partially or fully implementing 182. We based our scope and methodology on United States Government Accountability Office – formerly the General Accounting Office – (GAO) guidelines, published in *How to Get Action on Audit Recommendations* (1991), as well as the *Government Auditing Standards* and section 23-7.5, Hawai'i Revised Statutes.

From 2015 to 2018, we made 190 actionable audit recommendations, of which the affected agencies reported partially or fully implementing 182.

According to the GAO, saving tax dollars, improving programs and operations, and providing better service to the public represent audit work's "bottom line." Recommendations are the vehicles by which these objectives are sought. However, it is action on recommendations – not the recommendations themselves – that helps government work better at less cost. Effective follow-up is essential to realizing the full benefits of audit work.

PHOTO: DEPARTMENT OF HAWAIIAN HOME LANDS

Review of Special Funds, Revolving Funds, Trust Funds, and Trust Accounts of the Department of Hawaiian Home Lands

Report No. 20-16, November 2020

Section 23-12, Hawai'i Revised Statutes, 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 sixth review of the Department of Hawaiian Home Lands' (DHHL) revolving funds, trust funds, and trust accounts, and our second review of its special funds.

WE REVIEWED 13 funds and accounts administered by DHHL. Total fund fiscal year-end balances amounted to at least $287 million per year during the period reviewed.

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

We found one trust fund did not meet criteria and should be reclassified to a trust account.

We noted that DHHL did not file statutorily required reports for non-general funds totaling $1,783,000. Accurate and complete reporting will greatly improve the Legislature's oversight and control of these funds and provide increased budgetary flexibility.

DHHL disagreed with our assessment that one trust fund should be reclassified to a trust account, which is the same determination we reached in our 2015 review of DHHL's funds.

We noted that DHHL did not file statutorily required reports for non-general funds totaling $1,783,000. Accurate and complete reporting will greatly improve the Legislature's oversight and control of these funds and provide increased budgetary flexibility.

We maintained that the fund does not meet the criteria of a trust fund because it functions as, and meets the criteria for, a trust account and therefore should be reclassified.

As to our observations on DHHL's reporting of non-general funds, DHHL stated that it was an oversight and that corrective action had been taken.

PHOTO: ISTOCK.COM

Review of Special Funds, Revolving Funds, Trust Funds, and Trust Accounts of the Judiciary

Report No. 20-17, November 2020

Section 23-12, Hawai'i Revised Statutes, 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 sixth review of the Judiciary's revolving funds, trust funds, and trust accounts, and our second review of its special funds.

WE REVIEWED 29 funds and accounts administered by the Judiciary. Total fund fiscal year-end balances amounted to at least $36 million per year during the period reviewed.

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

We found one special fund and one trust fund did not meet criteria. We recommended the special fund, which does not appear to be financially self-sustaining, be repealed; and the trust fund be reclassified to a special fund.

We noted the Judiciary did not file statutorily required reports for non-general funds totaling more than $47 million. Accurate and complete reporting will greatly improve the Legislature's oversight and control of these funds and provide increased budgetary flexibility.

The Judiciary generally agreed with our findings but disagreed with our assessment that one trust fund should be reclassified to a special fund. We maintained that the fund does not meet the criteria of a trust fund because it functions as, and meets the criteria for, a special fund and should be reclassified.

As to our observations on the Judiciary's reporting of non-general funds, the Judiciary stated that it would take immediate corrective action to ensure compliance with reporting requirements.

We noted the Judiciary did not file statutorily required reports for non-general funds totaling more than $47 million. Accurate and complete reporting will greatly improve the Legislature's oversight and control of these funds and provide increased budgetary flexibility.

PHOTO: OFFICE OF THE AUDITOR

Review of Special Funds, Revolving Funds, Trust Funds, and Trust Accounts of the Department of Commerce and Consumer Affairs

Report No. 20-18, December 2020

Section 23-12, Hawai'i Revised Statutes, 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 was our sixth review of the Department of Commerce and Consumer Affairs' (DCCA) revolving funds, trust funds, and trust accounts, and our second review of the department's special funds.

WE REVIEWED 39 funds and accounts administered by DCCA. Total fund fiscal year-end balances amounted to at least $280 million per year during the period reviewed.

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

We found two special funds, one trust fund, and one trust account did not meet criteria. We recommended both special funds be closed, the trust fund be reclassified to a special fund, and the trust account be reclassified to a trust fund.

We noted that DCCA did not file statutorily required reports for its funds and accounts totaling approximately $2.1 million. Accurate and complete reporting will greatly improve the Legislature's oversight and control of these funds and provide increased budgetary flexibility.

DCCA disagreed with our assessment that one trust fund should be reclassified to a special fund. We maintained that the fund did not meet the criteria of a trust fund because it functions as, and meets the criteria for, a special fund and should be reclassified.

DCCA also disagreed with our conclusion that one special fund was inappropriately created because it was administratively established after section 37-52.3, Hawai'i Revised Statutes, was amended to require all new special funds be established pursuant to an act of the Legislature. However, DCCA's response did not provide other information to refute our conclusion.

Finally, as to our observations on DCCA's reporting of non-general funds, DCCA acknowledged one reporting oversight but disagreed with our conclusion that a trust fund was not properly reported. We maintained that the fund should have been included on DCCA's report to the Legislature of the department's administratively established accounts and funds based upon the information DCCA provided to us during the review process.

PHOTO: ISTOCK.COM

COVID-19 SPECIAL PROJECTS

Limited Scope Review of State Building Management in Response to COVID-19 by the Central Services Division of the Department of Accounting and General Services

Report No. 20-19, December 2020

We initiated a limited scope review of the measures implemented by the Department of Accounting and General Services (DAGS) in response to the COVID-19 pandemic to protect the health and safety of state employees working in DAGS-managed buildings, as well as visitors to those buildings and DAGS' own maintenance and custodial staff. We intended to determine the additional cleaning and disinfection procedures and other processes (or controls) that DAGS' Central Services Division had developed specific to the novel coronavirus.

IN OUR REVIEW we found that the focus of the Central Services Division management is to just "keep the lights on," which has led to incomplete and inconsistent efforts by the Central Services Division to safely re-open and operate its buildings during the COVID-19 pandemic. The division's questionable compliance with – and apparent limited awareness of – applicable state and federal guidelines compromises the safety and health of those working in or visiting buildings managed by DAGS. For instance, we had expected DAGS and its Central Services Division to have developed additional cleaning and disinfection procedures specific to the novel coronavirus as well as processes to ensure that those procedures are consistent with the Centers for Disease Control and Prevention's current guidance. However, our review revealed that DAGS had not been consistently following all the requirements in the Governor's emergency proclamations and relevant guidelines and may not even have fully read some of them.

We found a division that has done little to address the health and safety risks associated with COVID-19. DAGS did not have an overall plan for responding to the novel coronavirus, apart from select memoranda provided to building tenants early in the pandemic. More than nine months after the Governor issued his first emergency proclamation related to COVID-19 – and almost 25 years after this office's audit of the Central Services Division – DAGS had yet to fully and consistently implement administrative tools, such as task lists and checklists, that ensure daily janitorial tasks are completed in a verifiable way. We emphasize the importance of developing written policies and procedures as well as creating a control environment that demonstrates management's approach to holding its staff accountable. Without documented processes, it is unclear how DAGS can be confident it has what it needs to meet the additional demands posed by COVID-19.

PHOTO: ISTOCK.COM

Sunset Evaluation: Regulation of Behavior Analysts

Report No. 20-20, December 2020

In accordance with the Hawai'i Regulatory Licensing Reform Act, the Auditor must determine and report on whether behavior analyst regulation complies with the State's policies for regulating professions and vocations, and whether public interest requires that the law establishing the program be re-enacted, modified, or permitted to expire, prior to its June 30, 2021, repeal date. Our examination included determining whether the services provided by behavior analysts jeopardize consumer health, and whether such regulation unreasonably restricts entry into the profession. Our evaluation also accounted for complaints regarding applied behavior analysis services, the impact of regulation on the costs of such services, and whether licensing fees cover the costs of regulating behavior analysts.

WE FOUND that regulation of behavior analysts is consistent with and supported by the criteria for professional licensing set forth in the Hawai'i Regulatory Licensing Reform Act, Chapter 26H, Hawai'i Revised Statutes. In our view, the current licensing requirement for behavior analysts is reasonably necessary to protect the health, safety, and welfare of children and adults receiving services from a behavior analyst. However, while we found that criteria for continued regulation were met, if the Legislature continues the current regulation of behavior analysts, we recommend that behavior analysts be required to provide the Department of Commerce and Consumer Affairs (DCCA) with proof of their active status as a Board-Certified Behavior Analyst or Board Certified Behavior Analyst-Doctoral as part of the license renewal process.

In our review, we also found that Hawai'i's regulation of behavior analysts does not appear to artificially increase consumer costs. On the contrary, since 2015, the State has mandated insurance coverage for applied behavior analysis services for autism treatment. Such increased access to these services likely lowers consumer costs.

We also found that regulation does not unreasonably restrict entry into the profession by qualified persons. The standards are available to anyone meeting the education and practicum requirements and are similar to those established by other states that license or otherwise regulate behavior analysts. Moreover, we found no evidence the cost to obtain a license in Hawai'i is deterring applicants. Based on DCCA's estimated costs of the behavior analyst licensing program, the aggregate of the fees collected from licensees appears to cover the full cost of administering the program.

Since Hawai'i's licensing requirement took effect in 2016, the number of licensed behavioral analysts has nearly doubled.

PHOTO: OFFICE OF THE AUDITOR

Audit of the Agribusiness Development Corporation

Report No. 21-01, January 2021

This report was conducted pursuant to Act 28, Session Laws of Hawai'i 2019 (House Bill No. 1561, House Draft 1, Senate Draft 2), which mandated a performance audit of the Agribusiness Development Corporation (ADC).

THE HAWAI'I STATE LEGISLATURE created the ADC in 1994 amidst a series of sugar and pineapple plantation closures that lawmakers viewed as "an unprecedented opportunity for the conversion of agriculture into a dynamic growth industry." Projecting that the downsizing of sugar and pineapple production would free up 75,000 acres of agricultural land and 50 million gallons of water daily over the next decade, the Legislature established ADC as a public corporation tasked with developing an "aggressive and dynamic" agribusiness development program to convert former plantation assets for use by new large-scale commercial enterprises that export the majority of their crops.

However, we found that ADC has done little – if anything – to facilitate the development of agricultural enterprises to replace the economic loss created by the demise of the sugar and pineapple industries. After almost 30 years, ADC has yet to develop an agribusiness plan – a plan required by statute – to define and establish goals, objectives, policies, and priority guidelines for its agribusiness development strategy or other short- and long-range strategic plans.

Instead of leading the State's agricultural transformation, ADC primarily manages 4,257 acres of land it started acquiring in 2012 at the direction of the Legislature, as well as the Waiāhole Water System on O'ahu. We found that the corporation struggles to manage its lands, challenged by the myriad duties required for effective land management. For instance, a preferred anchor tenant had occupied ADC land for years without a formal, written agreement.

We further found that ADC's Board of Directors, as the head of the corporation, has provided minimal guidance and oversight of ADC's operations, giving the Executive Director discretion over what business is brought to the Board.

The Board's abdication of its policymaking and oversight responsibilities has left ADC without the necessary leadership to facilitate the transition of agricultural lands and infrastructure from plantation operations into other agricultural enterprises.

ADC was created to provide that leadership, to facilitate the development of Hawai'i-based agricultural enterprises whose products are primarily for export, and to assist Hawai'i-based agricultural enterprises with marketing and promotional strategies to exploit local, national, and international markets. ADC has not become the entity the Legislature envisioned – one that would develop an agriculture industry to stand as a pillar of the state economy, alongside tourism and the military. After nearly 30 years, the economic void created when plantations ceased production remains mostly unfilled.

PHOTO: DEPARTMENT OF HUMAN SERVICES

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

Report No. 21-02, January 2021

Section 23-12, Hawai'i Revised Statutes, 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 sixth review of the Department of Human Services' (DHS) revolving funds, trust funds, and trust accounts, and our second review of DHS' special funds.

WE REVIEWED 41 funds and accounts administered by DHS and its administratively attached agency, the Hawai'i Public Housing Authority (HPHA). Total fund fiscal year-end balances amounted to at least $22 million per year during the period reviewed.

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

We found 1 special fund, 3 revolving funds, 1 trust fund, and 1 trust account did not meet criteria. We recommended the special fund, the trust fund, and one revolving fund be closed because they no longer serve the purpose for which they were originally established. We also recommended that the trust account be reclassified to a trust fund and one revolving fund be reclassified to a special fund. Lastly, we recommended that one revolving fund be repealed because it is not financially self-sustaining.

DHS largely agreed with our conclusions and plans to implement our recommendations as soon as practicable.

DHS disagreed with our conclusion that the Public Housing Revolving Fund should be reclassified to a special fund. A revolving fund is a fund from which is paid the cost of goods and services rendered or furnished to or by a state agency and which is replenished through charges made for the goods or services. Revenues for the fund include all moneys received or collected by HPHA that are not otherwise pledged. As such, we maintain our analysis of this fund was appropriate and correct based upon the information DHS provided to us during the review process and fund definitions provided in statute.

DHS also disagreed with our conclusion that the State Low-Income Housing Revolving Fund should be repealed. Revolving funds must demonstrate the capacity to be financially self-sustaining. This fund's expenditures exceeded revenues in four of the five years under review and the fund required general fund support in FY2019 and FY2020. DHS' response did not provide information that supports or otherwise justifies amending our conclusion that the fund is not financially self-sustaining.

We noted that DHS and HPHA did not file statutorily required reports for non-general funds totaling approximately $12.6 million and administratively created non-general funds totaling approximately $5.6 million. Accurate and complete reporting will greatly improve the Legislature's oversight and control of these funds and provide increased budgetary flexibility.

PHOTO: OFFICE OF THE AUDITOR

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

Report No. 21-03, February 2021

Section 23-12, Hawai'i Revised Statutes, 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 sixth review of the Department of Health's (DOH) revolving funds, trust funds, and trust accounts, and our second review of DOH's special funds.

WE REVIEWED 70 funds and accounts administered by DOH and its administratively attached agency, the Hawai'i Health Systems Corporation (HHSC). Total fund fiscal year-end balances amounted to at least $446 million per year during the period reviewed.

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

We recommended seven special funds be repealed or closed, including a special fund that HHSC believes should be removed from the State's Financial Accounting and Management Information System (FAMIS). We also recommended that one revolving fund be reclassified to a special fund, two trust accounts be reclassified to trust funds, and one trust fund be reclassified to a trust account. Lastly, we recommended that DOH reevaluate and reclassify two trust funds because multiple programs, with distinct purposes, intents, and uses, appear to be operating out of these funds.

We noted that DOH and HHSC did not file statutorily required reports for non-general funds totaling approximately $62.3 million and administratively created non-general funds totaling approximately $57.1 million (although HHSC asserts that the approximately $49.9 million cash balance in the HHSC FAMIS account is a recording error that it is working to reverse). Accurate and complete reporting will greatly improve the Legislature's oversight and control of these funds and provide increased budgetary flexibility.

DOH disagreed with our conclusion that three special funds did not satisfy the clear nexus/clear link criterion required by statute and provided comments. DOH also questioned the basis for our recommendations related to three funds and accounts: the Environmental Response Revolving Fund; the Mai'ili'ili Supplemental Environmental Project Fund; and the Trust Fund for Non-Diseased Children of H.D. Patients, Charles A. Brown Trust.

As to its reporting shortfall, DOH acknowledged that certain funds and accounts were not submitted to the Legislature due in part to staff turnover and is working to correct the oversight.

REGARDING THE DEPARTMENT OF HEALTH:

We noted that DOH and HHSC did not file statutorily required reports for non-general funds totaling approximately $62.3 million and administratively created non-general funds totaling approximately $57.1 million (although HHSC asserts that the approximately $49.9 million cash balance in the HHSC FAMIS account is a recording error that it is working to reverse).

HHSC generally agreed with our recommendations. However, as to its reporting shortfall, HHSC asserted that the Health Systems Special Fund cash balance was reported as part of a larger consolidated cash balance that included but was not limited to the 15 accounts associated with the Health Systems Special Fund. HHSC also acknowledged that it does not file a separate administratively established fund report but will do so going forward.

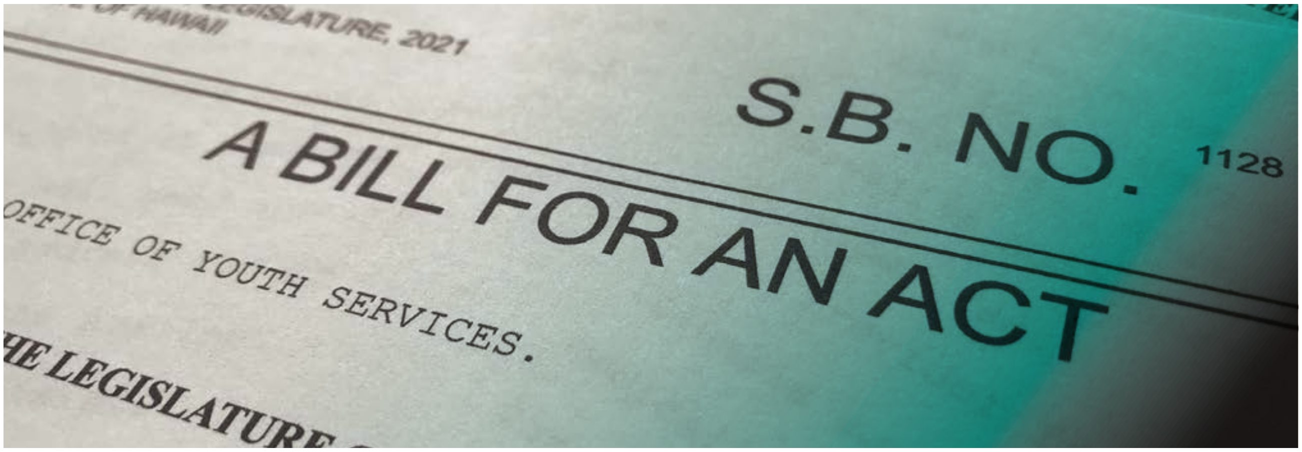


PHOTO: OFFICE OF THE AUDITOR

Analyses of Proposed Special and Revolving Funds 2021

Report No. 21-04, March 2021

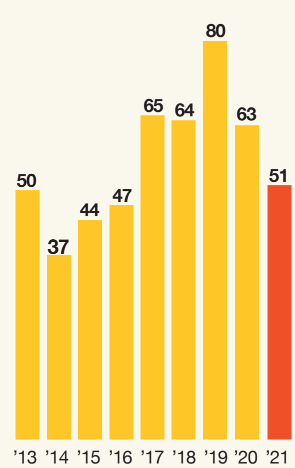
This report compiles our analyses of new special and revolving funds proposed by 2021 legislative bills. The analyses were prepared in accordance with section 23-11, Hawai'i Revised Statutes (HRS), which requires the Auditor to analyze all legislative bills introduced each session that propose to establish new special or revolving funds.

WE REVIEWED 75 Senate and House bills proposing 51 special and revolving funds during the 2021 legislative session of which none met criteria.

Only about half of 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. Between 2008 and 2012, the number of these non-general funds and the amount of money contained in them substantially increased. Much of that upward trend had 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 Hawai'i Supreme Court determined that under only certain conditions could the Legislature "raid" special funds to balance the state budget. In 2013, the Legislature built new safeguards into the criteria for establishing special funds to gain more control over the budget process.



Proposed Funds

IN 2021, 51 new funds were proposed.

None of the special and revolving funds proposed during the 2021 legislative session satisfied the criteria set forth in section 23-11, HRS. References to House Draft and Senate Draft versions reflect bill status at the time of our review.

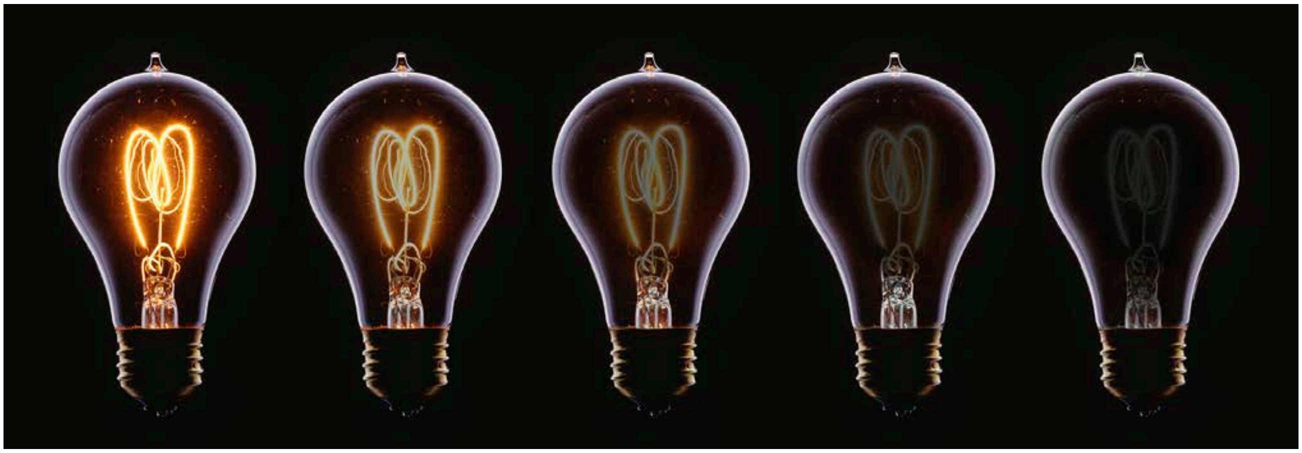


PHOTO: ISTOCK.COM

Follow-Up on Recommendations from Report No. 18-01, *Audit of the Hawai‘i State Energy Office*

Report No. 21-05, March 2021

Section 23-7.5, Hawai‘i Revised Statutes, 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 agency. This report presents the results of our follow-up on the Hawai‘i State Energy Office's implementation of the nine audit recommendations made in Report No. 18-01, Audit of the Hawai‘i State Energy Office*, which was published in January 2018.*

AT THE TIME of our 2018 audit, the Hawai‘i State Energy Office's mission was to maximize Hawai‘i's energy self-sufficiency and security and to guide the State toward its statutory mandate to achieve energy independence. The audit noted that, for the Energy Office, fulfilling this mission meant working toward the deployment of clean energy infrastructure and serving as a catalyst for energy innovation and test bed investments. The Energy Office's mission has since been expanded. In 2019, the Legislature passed Act 122, Session Laws of Hawai‘i 2019. Act 122 created a Chief Energy Officer position and appropriated general funds to support and fund the Energy Office's personnel and operating expenses. Act 122 also identified the Energy Office as "the State's primary government entity for supporting the clean energy initiative."

In our 2018 audit, we reported that the majority of the Energy Office's funding was through an Energy Security Special Fund. Federal stimulus funding through the American Recovery and Reinvestment Act helped provide the means for the Energy Office to nearly double its staff from 2009 to 2012. However, the stimulus funding expired in 2012 and the Energy Office did not make sufficient staffing adjustments to lower costs. Our 2018 report revealed that expenditures consistently exceeded revenues as early as the 2014 fiscal year, and that the Energy Office faced an imminent financial shortfall that would significantly impact Energy Office operations in the near future. At its then-current rate of spending, the Energy Office would have substantially depleted the balance in its special fund by FY2019.

In our 2018 audit report, we characterized the Energy Office as "an organization at a crossroads." We noted that the Energy Office lacked the funding to continue its current level of operations, could not clearly articulate how its efforts had contributed to its stated mandate, and had no plans for aligning and re-sizing its operations to match its broad responsibilities and current fiscal realities. In conducting the follow-up to our 2018 audit report, we found the Energy Office remains at a crossroads. Act 122 has paved the way for a more effective and more efficient Energy Office, with a more stable source of funding and a clearer mission. But whether that ultimately means a brighter future for the Energy Office depends on whether it rises to the challenges and opportunities created by Act 122.

Our audit report made nine recommendations relating to the Energy Office's continued financial path, its lack of an updated strategic plan, its lack of project management and reporting processes, and inadequate documentation of project effectiveness.

Our follow-up on the Energy Office's implementation of recommendations made in Report No. 18-01 found that the Energy Office has fully implemented one of the recommendations and partially implemented six of the recommendations. In addition, we found that the Energy Office has not implemented two of the recommendations because circumstances have changed in a way that makes the recommendations no longer applicable.

PHOTO: ISTOCK.COM

Review of Income and Financial Institutions Tax Credits Pursuant to Section 23-92, Hawai‘i Revised Statutes

Report No. 21-06, March 2021

This report assesses the Motion Picture, Digital Media, and Film Production Income Tax Credit and the Renewable Energy Technologies Income Tax Credit. Section 23-91 et seq., Hawai‘i Revised Statutes, requires the Auditor to annually review different tax credits, exclusions, and deductions on a five-year recurring cycle.

IN 2018, Hawai‘i's tax laws contained 21 tax credits, totaling $341.93 million, according to a December 2020 report by the Hawai‘i Department of Taxation (DoTax). More than forty-four percent of that amount was attributed to the tax credits reviewed in this report. The Motion Picture, Digital Media, and Film Production Income Tax Credit was the State's costliest tax credit with $80.23 million in claims, followed by the Renewable Energy Technologies Income Tax Credit with $70.5 million in claims.

The Motion Picture, Digital Media, and Film Production Income Tax Credit reduces the taxpayer's income tax liability based on "qualified production costs" incurred by a production that is subject to the Hawai‘i general excise tax or income tax. We determined the purpose of this credit is to encourage the growth of the State's film and creative media industries by keeping Hawai‘i competitive and comparable to other jurisdictions that offer tax breaks to attract productions, which generate tax revenue, jobs, and tourism marketing exposure. We noted several challenges to conducting an accurate cost-benefit analysis of this credit, including the impact of "free-riders," i.e., productions that would have filmed in Hawai‘i irrespective of the credit.

In 2018, 25 qualified productions incurred $425.53 million in qualified production costs and claimed tax credits of $80.23 million, according to DoTax.

The Renewable Energy Technologies Income Tax Credit provides tax credits for expenses relating to renewable energy technologies, including solar energy systems and wind-powered energy systems installed by individuals and businesses. Based on the legislative history, we determined that, generally, the purpose of the credit is to reduce the State's dependence on imported oil for electricity generation by encouraging private investment in renewable energy systems.

According to DoTax, 7,337 individuals and 77 corporations claimed the tax credit in 2018, totaling $70.5 million.

Overall, we found both tax credits appear to be achieving certain aspects of their stated purposes, but concrete conclusions cannot be drawn until the Legislature identifies metrics or benchmarks to measure achievement. As noted throughout the report, although we were able to identify purposes for the provisions reviewed, we had no objective means to assess whether those provisions were achieving their respective purposes. We recommend the Legislature clearly articulate purposes and establish specific metrics for measuring effectiveness for each tax credit. Clearly stated purposes for each tax credit and metrics for us to assess performance against specific targeted outcomes will permit a more thorough and meaningful analysis of the tax credits.

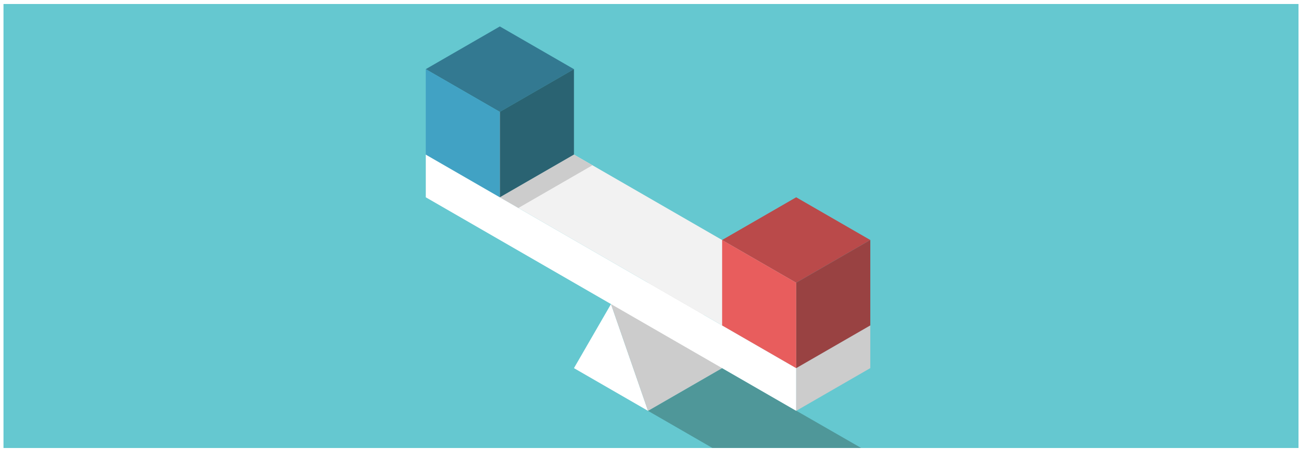


ILLUSTRATION: ISTOCK.COM

Review of General Excise and Use Tax Exemptions and Exclusions Pursuant to Section 23-73, Hawai‘i Revised Statutes

Report No. 21-07, April 2021

This report assesses certain tax exemptions and exclusions from Hawai‘i's General Excise Tax (GET). Section 23-71 et seq., Hawai‘i Revised Statutes, requires the Auditor to annually review different tax exemptions, exclusions, and credits on a 10-year recurring cycle.

AS DESCRIBED by the Department of Taxation (DoTax), Hawai‘i's GET and Use Tax, combined, apply to nearly all business activities in the state. In fiscal year 2020, which ended June 30, 2020, GET and Use Tax revenues accounted for $3.36 billion, or 49 percent of the total tax revenue of $6.89 billion. Those amounts predate the current COVID-19 pandemic, which has significantly impacted public health and the State's economy, while simultaneously resulting in sharp reductions in GET and Use Tax revenue.

This report reviews a total of nine tax provisions – seven GET exemptions and two GET exclusions. While DoTax collects data on seven of these tax provisions, our ability to report information about three of them was restricted by DoTax's policy prohibiting disclosure of information, even in aggregated form, when there are a limited number of taxpayers. The current policy excludes disclosure when there are five or fewer claims for an exemption, or when an individual return represents a large percentage of the tabulation.

We note we did not analyze an exemption for amounts received by TRICARE-managed care support contractors because it was repealed on December 31, 2018.

We also note that the GET exemption for cooperative housing corporations is related to an exemption for reimbursements to associations of owners of condominium property regimes, nonprofit homeowners, or community associations, which we are not scheduled to analyze until 2024. However, because DoTax does not segregate data relating to these two exemptions, we report the exemptions' aggregated numbers in this report.

Overall, we found there was insufficient data to determine whether six of the seven exemptions reviewed are meeting their stated or inferred purposes. As we note in the report, making conclusions as to whether purposes have been met is extremely difficult where amounts claimed are not tracked or where no benchmarks or metrics are provided. We also found that one exemption for amounts received by a patient-centered community care contractor used to pay third-party health care providers pursuant to a contract with the United States is likely being erroneously or improperly claimed by some taxpayers.

PHOTOS: ISTOCK.COM

Follow-Up on Recommendations from Report No. 18-05, *Audit of the Public Utilities Commission*

Report No. 21-08, May 2021

Section 23-7.5, Hawai'i Revised Statutes, 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 recommendations made to the Public Utilities Commission (PUC) in Report No. 18-05, Audit of the Public Utilities Commission*, which was published in February 2018.*

IN REPORT NO. 18-05, *Audit of the Public Utilities Commission*, we found the PUC had not dedicated time and resources to address critical issues, such as staff retention, an archaic document management system, and problems with consistent docket processing. A "Goals and Objectives of the Commission" section included in the PUC's annual report, while fulfilling a statutory requirement, was doing little else. And an accompanying "Statement of Goals" was missing key elements including action plans and performance measures necessary to link goals and objectives to the Commission's actual work and activities.

We also found, despite spending $2.8 million towards an online Document Management System (DMS), PUC's docket efficiency needs remained unmet. At the time of our audit, the PUC had no firm plans to fix or replace the problematic DMS despite a $1.6 million maintenance contract which was set to expire the following year and would have needed to be extended.

Our follow-up efforts were limited to reviewing and reporting the implementation status of our audit recommendations. We did not explore new issues or revisit old ones that did not relate to the original recommendations. Report No. 21-08 details the audit recommendations made in 2018 and their current implementation status based on our review of information and documents provided by the PUC, and other publicly available information.

We found, in 2020, as part of its response to the 2018 audit recommendations, the PUC contracted with a private consultant to provide strategic planning services and to work with the PUC to develop action plans and timetables to support the PUC's strategic goals and to implement its strategic plan. At the end of 2020, the PUC, with the assistance of its consultant, had finalized a multi-year 2020-2022 PUC Strategic Plan which had not yet been fully implemented. At the time of our review, conducted between February and March 2021, we found the PUC had implemented nine and partially implemented one of the 12 recommendations in our 2018 audit report. One recommendation had not been implemented and another was no longer applicable.

PHOTO: OFFICE OF THE AUDITOR

Follow-Up on Recommendations from Report No. 18-09, *Audit of the Department of the Attorney General's Asset Forfeiture Program*

Report No. 21-09, July 2021

Section 23-7.5, Hawai'i Revised Statutes, 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 recommendations made to the Department of the Attorney General (the department) in Report No. 18-09, Audit of the Department of the Attorney General's Asset Forfeiture Program*, which was published in June 2018.*

IN REPORT NO. 18-09, we found the department was administering the program without administrative rules describing the specific procedures and practice requirements for asset forfeiture or clear internal policies and procedures to ensure that petitions for forfeiture as well as petitions for remission or mitigation are timely and consistently processed.

In the absence of administrative rules, the program was providing only informal, piecemeal guidance to law enforcement agencies and the public, resulting in, among other things, numerous petitions for forfeiture being dismissed by the department and inconsistent handling of forfeited property by county police departments. We also found the program manager was acting only as a property manager in charge of overseeing forfeited property, but neither actively guiding the program's day-to-day activities nor overseeing the financial management of the program.

Our follow-up efforts were limited to reviewing and reporting the implementation status of our audit recommendations. We did not explore new issues or revisit old ones that did not relate to the original recommendations. Report No. 21-09 details the audit recommendations made in 2018 and their current implementation status based on our review of information and documents provided by the Department of the Attorney General, and other publicly available information.

In 2021, we found the department had promulgated administrative rules but noted the administrative rules do not address the process by which organizations can request and receive moneys from the Criminal Forfeiture Fund for drug abuse education, prevention, and rehabilitation programs. We also found while the department had made some effort to document procedures, a two-page document entitled "Processing of Forfeiture Petitions - Time requirement as cited in the Statute and the Administrative Rules," was intended for law enforcement and that the department has not yet developed written policies and procedures sufficient to guide and direct department staff in processing petitions for administrative forfeiture.

The department did provide evidence that petitions for administrative forfeiture have been processed in a comparatively more timely fashion, stating petitions were processed on average in 204 days in FY2020, down from 561 days during the two-year period from July 2012 through

REGARDING THE DEPARTMENT OF THE ATTORNEY GENERAL

In 2021, we found the department had promulgated administrative rules but noted the administrative rules do not address the process by which organizations can request and receive moneys from the Criminal Forfeiture Fund for drug abuse education, prevention, and rehabilitation programs.

July 2014. Additionally, the department stated money from cost bonds, seized funds pending disposition, and forfeited funds are entered into a master ledger and the master ledger reconciled to the Hawai‘i Financial Accounting and Management and Information System.

Our first recommendation related to the department’s need to promulgate administrative rules, and our second recommendation addressed the need for clear internal policies and procedures. Our third recommendation involved strengthening internal controls to provide transparency and accountability for forfeited property and program funds. Our follow-up of the department’s implementation of the seven recommendations made in Report No. 18-09 found the department had implemented two of the recommendations; partially implemented two of the recommendations; and three of the recommendations were not implemented.

PHOTOS: ISTOCK.COM

Follow-Up on Recommendations from Report No. 18-08, *Audit of the Office of Hawaiian Affairs' Competitive Grants and Report on the Implementation of 2013 Audit Recommendations*

Report No. 21-10, August 2021

Section 23-7.5, Hawai'i Revised Statutes (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 follow-up on the Office of Hawaiian Affairs' implementation of the 11 audit recommendations made in Report No. 18-08, Audit of the Office of Hawaiian Affairs' Competitive Grants and Report on the Implementation of 2013 Audit Recommendations*.*

IN REPORT NO. 18-10, *Audit of the Office of Hawaiian Affairs' Competitive Grants and Report on the Implementation of 2013 Audit Recommendations*, we focused on OHA's use of grants to support Native Hawaiian programs and services. We found that while the policies and procedures for OHA's competitively awarded grants were for the most part defined, there were shortcomings in the way awarded grants were monitored and evaluated. Section 10-17, HRS, requires OHA to monitor and evaluate every grant to ensure compliance with the purpose and intent of the grant, and to determine whether the intended results were achieved. At the time of our audit, OHA's Grants Program Standard Operating Procedures (Grants SOP) manual described four funding resources that involved competitive and non-competitive processes.

We found OHA's 'Ahahui and Community Grants involved a solicitation process that notified the public of available grant funding opportunities and details of eligibility criteria. These grants, awarded through a competitive process, made up 35 percent of OHA's total grant spending. In Report No. 18-08, we found that OHA did not consistently meet the statutory requirements to monitor and evaluate 'Ahahui Grants and mostly met monitoring and evaluation requirements for Community Grants. We also found the program primarily responsible for administering grants, the Transitional Assistance Program, followed the policies and procedures for the planning, solicitation, application, review, and recommendation phases for the 'Ahahui and Community Grants process cycles, but that a standard operating procedures manual for 'Ahahui Grants did not include steps for monitoring and evaluating grants that had been awarded.

In response to Report No. 18-08, OHA instituted specific policies and actions related to its use of 'Ahahui Grants and Community Grants, revising its standard operating procedures for grants to mandate performance requirements and developing an information management system to ensure grants are monitored and evaluated.

We found OHA had implemented 10 and partially implemented 1 of the 11 recommendations made in our report.

PHOTO: OFFICE OF THE AUDITOR

Report on the Implementation of State Auditor's Recommendations 2015 – 2019

Report No. 21-11, October 2021

This is a report on the follow-up reviews of state departments and agencies' implementation of audit recommendations contained in audits issued in calendar years 2015–2019. We conducted the follow-ups pursuant to section 23-7.5, Hawai'i Revised Statutes, which requires the Auditor to report to the Legislature on each recommendation that the Auditor has made that is more than one year old and that has not been implemented by the audited agency.

EVERY YEAR, we follow up on recommendations made in our audit reports. We ask agencies to provide us with the status of their implementation of the recommendations made as part of our audit starting a year after the report was issued. After two or three years, we conduct a more rigorous follow-up review. Those reviews, which we refer to as "active reviews," include interviewing selected personnel from the agency and examining the agency's relevant policies, procedures, records, and documents to assess whether action on recommendations has been taken. Our efforts are limited to the reviewing and reporting on an agency's implementation of recommendations made in the original audit report. We do not explore new issues or revisit issues from the report that are unrelated to our original recommendations.

From 2015 to 2019, we made 241 actionable audit recommendations. Based on information self-reported by the agencies and information from active reviews, 209 of those recommendations have been partially or fully implemented.

We based our scope and methodology on the United States Government Accountability Office – formerly the General Accounting Office – (GAO) guidelines, published in *How to Get Action on Audit Recommendations* (1991), as well as the *Government Auditing Standards* and Hawai'i Revised Statutes, section 23-7.5.

According to the GAO, saving tax dollars, improving programs and operations, and providing better service to the public represent audit work's "bottom line." Recommendations are the vehicles by which these objectives are sought. However, it is action on recommendations – not the recommendations themselves – that helps government work better. Effective follow-up is essential to realizing the full benefits of audit work.

PHOTOS: ISTOCK.COM

Review of Special Funds, Revolving Funds, Trust Funds, and Trust Accounts of the Offices of the Governor and Lieutenant Governor

Report No. 21-12, October 2021

Section 23-12, Hawai'i Revised Statutes (HRS), requires the Auditor to review all existing special, revolving, and trust funds, once every five years. Although not mandated by statute, we included trust accounts as part of our review. This is our sixth review of the Office of the Governor's revolving funds, trust funds, and trust accounts, and our fifth review of the Office of the Lieutenant Governor's funds and accounts. It is our second review of these offices' special funds since section 23-12, HRS was amended by Act 130, Session Laws of Hawai'i 2013, to include reviews of special funds.

WE REVIEWED three trust funds of the Office of the Governor (GOV); the office did not have special funds, revolving funds, or trust accounts during the period of review, FY2017 – FY2021. We found GOV's trust funds did not collect, spend, or transfer any funds in FY2021. GOV closed two of the trust funds during the period under review and planned to close the third. The Office of the Lieutenant Governor (LTG) did not have any special funds, revolving funds, trust funds, or trust accounts during the same five-year period.

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 was provided for informational purposes. We did not present conclusions about the effectiveness of programs or their management, or whether the programs should be continued.

We noted that GOV did not file statutorily required reports and funds totaling approximately $1,000. Accurate and complete reporting will greatly improve the Legislature's oversight and control of these funds and provide increased budgetary flexibility.

GOV did not dispute the findings and will take appropriate action to close a trust fund that no longer serves its original purpose. GOV also stated that it will ensure compliance with all reporting requirements.

PHOTO: OFFICE OF THE AUDITOR

Financial and Program Audit of the Department of Health's Deposit Beverage Container Program, June 30, 2020

Report No. 21-13, December 2021

This audit was conducted pursuant to section 342G-107, Hawai'i Revised Statutes, 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 for fiscal year ended June 30, 2020, was conducted by the certified public accounting firm of KMH LLP with the assistance of the Office of the Auditor.

IN SEVERAL PRIOR AUDITS, we raised concerns about the Deposit Beverage Container Program's reliance on self-reported data from distributors and redemption centers, explicitly stating that the Department of Health's (DOH) passive oversight exposes the program to possible fraud, waste, and abuse. During an initial meeting with the department, management conceded that they had not addressed any of our previous audit findings, despite actual fraud that was reported in 2018. As a result, we redirected this year's review to ascertain and report why DOH has failed to address the long-standing findings.

DOH's disinterest or reluctance to properly administer the program may be because management does not believe the program should be its responsibility. According to the Deputy Director for Environmental Health at the time, the prior DOH Director believed that the department should not be administering the program in the first place and that those duties should be contracted out. However, administration of the program is a department responsibility, and until the Legislature amends that responsibility, DOH must be accountable for the program's shortcomings.

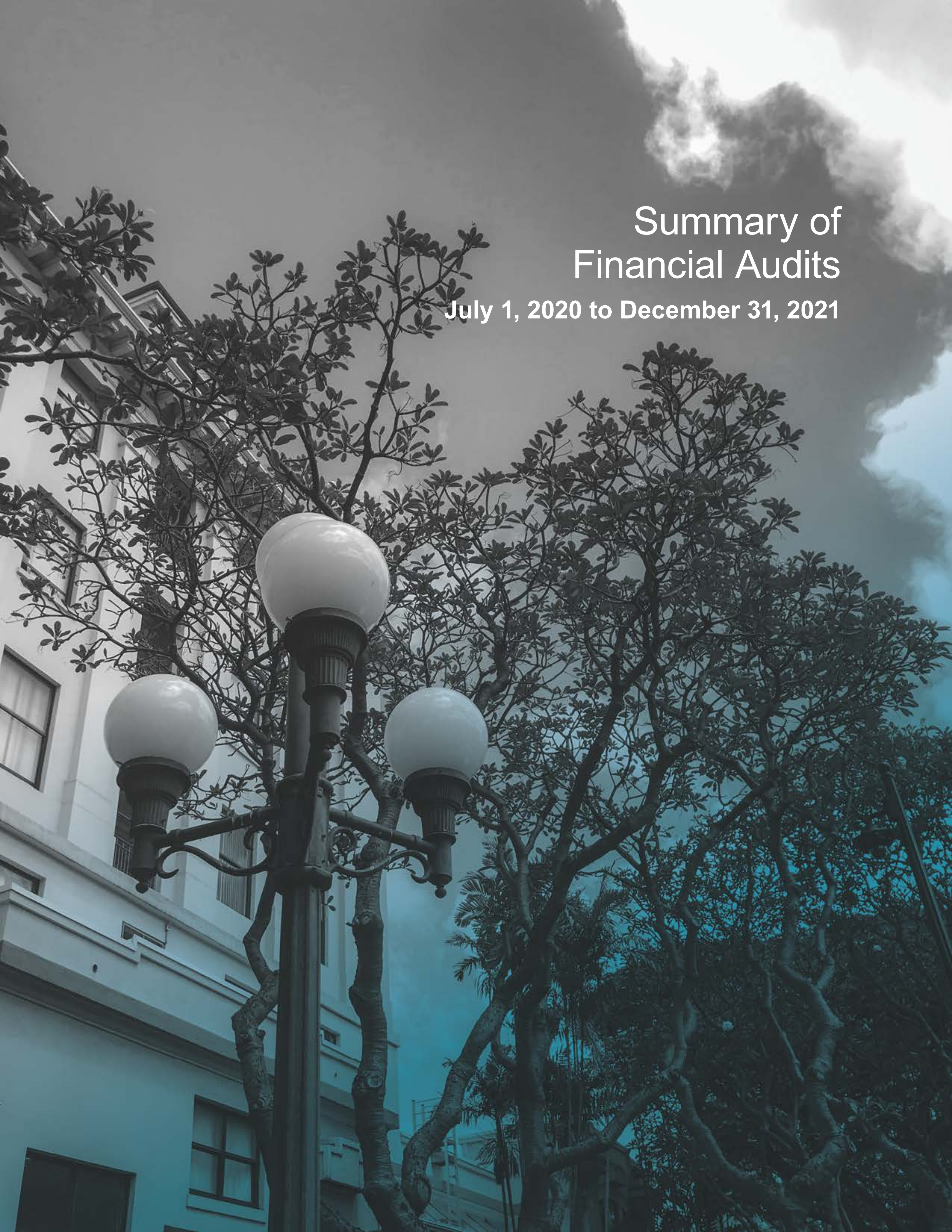
In earlier audits, we performed very limited testing of distributors and redemption centers' compliance with their respective statutory requirements. We found many instances where distributors and redemption centers have improperly enriched themselves – whether intentionally or not – because of the department's lack of controls and its passive administration. And, because DOH is entirely reliant on distributors to self-report the number of containers sold, and on redemption centers to self-report the number of containers redeemed, there is both incentive and opportunity to continue to do so.

In addition, the moneys that the program collects are the deposits and handling fees collected from consumers that are held in a fund for those consumers who redeem the containers at redemption centers. While the number of containers that consumers redeem continues to decline (which means the fund continues to grow), DOH is accountable for the deposits and handling fees. Should the program ever run short of funds, taxpayers would be – but should not be – responsible for reimbursing the amounts redemption centers pay to consumers who redeem their containers.

If the department believes that the administration of the program is not aligned with its current capabilities, it should hire a third-party to administer the program, which the statute expressly allows. Whether through a third-party or its own staff, we recommend DOH take immediate action to address the deficiencies in the administration of the program that have been repeatedly identified in prior reports.

Summary of Financial Audits

July 1, 2020 to December 31, 2021



Summary of 2021 Financial Audits

The Office of the Auditor contracts with independent certified public accountants for the financial audits of certain departments, agencies, and programs as well as the State of Hawai‘i's Annual Comprehensive Financial Report. We strongly support the independent audits of departments, agencies, and programs' financial statements. Among other things, independent audits provide assurance that their respective financial statements are presented fairly in accordance with generally accepted accounting principles. State departments, agencies, and programs must be accountable for their use of public funds, and the financial audit is one aspect of that accountability.

The following summary includes financial audits completed after July 1, 2020. To give the reader a "bigger picture" of the State's financial position, we present statewide summaries first, followed by summaries of financial statements for departments and any programs or agencies associated with that department. Financial audit reports are available on our website at https://auditor.hawaii.gov.

STATEWIDE AUDITS

Financial Audit of the Annual Comprehensive Financial Report (ACFR) of the State of Hawai‘i Financial Statements, Fiscal Year Ended June 30, 2020

The State of Hawai‘i provides a range of services in the areas of education (both lower and higher), welfare, transportation (including highways, airports, and harbors), health, hospitals, public safety, housing, culture and recreation, economic development, and conservation of natural resources.

The State's ACFR includes the audited financial statements of the State's governmental activities (functions of the state that are typically supported by taxes and intergovernmental revenues) and its business-type activities (which rely to a significant extent on fees and charges for support). The State's business-type activities include the Department of Transportation's Airports Division, the Department of Transportation's Harbors Division, and the Unemployment Compensation Fund. These functions are intended to recover all or a significant portion of their costs through user fees and charges. The activities of seven legally separate component units (the Hawai‘i Community Development Authority, the Hawai‘i Health Systems Corporation, the Hawai‘i Housing Finance and Development Corporation, the Hawai‘i Hurricane Relief Fund, the Hawai‘i Public Housing Authority, the Hawai‘i Tourism Authority, and the University of Hawai‘i) are also included.

For the fiscal year ended June 30, 2020, total revenues were $14.5 billion and total expenses were $15.5 billion, resulting in a decrease in net position of $1 billion. Approximately 52 percent of the State of Hawai‘i's total revenues came from taxes of $7.6 billion, 26 percent from grants and contributions of $3.7 billion, and 22 percent from charges for various goods and services of $3.2 billion. Total tax revenues of $7.6 billion consisted of general excise taxes of $3.7 billion, net income taxes of $2.7 billion, and other taxes of $1.2 billion. The largest expenses were for welfare at $3.7 billion, lower education at $3.6 billion, higher education at $1.1 billion, health at $1.1 billion, and general government at $1.1 billion. Other expenses totaled $4.9 billion.

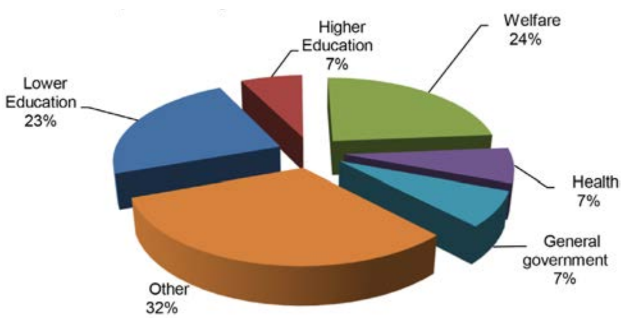
As of June 30, 2020, total liabilities and deferred inflows of resources of $28.6 billion exceeded total assets and deferred outflows of resources of $25.4 billion, resulting in a negative net position of $3.2 billion. Of this amount, $5.1 billion was for the State's net investment in capital assets, $4 billion was restricted for specific programs, and a negative $12.3 billion was unrestricted assets.

The State of Hawai‘i received an unmodified opinion that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles.

Financial Audit of the Annual Comprehensive Financial Report (ACFR) of the State of Hawai‘i Financial Statements, Fiscal Year Ended June 30, 2021

For the fiscal year ended June 30, 2021, total revenues were $17.7 billion and total expenses were $19.3 billion, resulting in a decrease in net position of $1.6 billion. Approximately 43 percent of the State of Hawai‘i’s total revenues came from taxes of $7.7 billion, 47 percent from grants and contributions of $8.3 billion, and 10 percent from charges for various goods and services of $1.7 billion. Total tax revenues of $7.7 billion consisted of general excise taxes of $3.4 billion, net income taxes of $3.3 billion, and other taxes of $1 billion. The largest expenses were for welfare at $4.6 billion, lower education at $3.3 billion, higher education at $1 billion, health at $900 million, and general government at $1.9 billion. Other expenses totaled $7.6 billion.

Expenses by Governmental Activities, Fiscal Year 2020



As of June 30, 2021, total liabilities and deferred inflows of resources of $32.9 billion exceeded total assets and deferred outflows of resources of $28.7 billion, resulting in a negative net position of $4.2 billion. Of this amount, $3.8 billion was for the State’s net investment in capital assets, $4.5 billion was restricted for specific programs, and a negative $12.5 billion was unrestricted assets.

The State of Hawai‘i received an unmodified opinion that its 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 Financial Statements, Fiscal Year Ended June 30, 2020

Each year, the federal government provides over $400 billion dollars in grants to state and local governments. Single audits provide assurance to the federal government that state agencies and programs receiving federal funds are expending those funds properly and in accordance with federal requirements. This report included the total federal expenditures and findings for the following departments: Labor and Industrial Relations; Commerce and Consumer Affairs; Public Safety; Agriculture; Accounting and General Services; Business, Economic Development and Tourism; Land and Natural Resources; Defense; and the Office of the Governor. Federal expenditures for these departments totaled approximately $2.14 billion dollars, an increase of $1.84 billion over FY2019. Federal expenditures and findings for other departments, including the Department of Health and Department of Transportation, are reported in individual single audit reports.

The auditors identified one material weakness and two significant deficiencies in internal controls over financial reporting that are required to be reported in accordance with *Government Auditing Standards*.

The auditors expressed a qualified opinion on certain major programs and identified one material weakness and three significant deficiencies over compliance with major federal programs that are required to be reported in accordance with the *Uniform Guidance*.

DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES

Financial Audit of the Stadium Authority Financial Statements, Fiscal Year Ended June 30, 2020

The Stadium Authority (Authority) is responsible for the operation, management, and maintenance of Aloha Stadium, located in Honolulu, Hawai‘i. For administrative purposes, the Authority is placed within the State of Hawai‘i’s Department of Accounting and General Services.

For the fiscal year ended June 30, 2020, the Authority reported total revenues of $6.9 million and total expenses of $13.5 million, resulting in a net loss of $6.6 million. Revenues consisted of $3.7 million from rentals from attractions, $1.5 million from food and beverage concessionaire commissions, $900,000 in parking fees, and $800,000 in advertising and other revenues. The Authority’s net loss was partially offset by $9 million in capital contributions, which represents the portion of Aloha Stadium capital improvement costs that were paid by the State of Hawai‘i.

Expenses consisted of $4.5 million for depreciation, $5.3 million for personnel services, $1.1 million for utilities, and $400,000 for repairs and maintenance. Additional expenses totaled $2.2 million and included state central services assessments as well as security, professional services, and other costs. And, as of June 30, 2020, total assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources, resulting in a net position of $86.7 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 identified one material weakness, which found $1.2 million in unrecorded capital additions and related capital contributions for the fiscal year ended June 30, 2020.

The report noted that due to the impact of the COVID-19 pandemic and the related emergency proclamations and emergency orders issued by the Governor, the Authority has substantial doubt about its ability to continue as a going concern for the 12-month period following the date of the issuance of the financial statements. The Authority had implemented cost saving measures in response to the conditions that have arisen due to COVID-19. The financial statements do not include any adjustments that might result from the outcome of this uncertainty, and the auditors’ opinion was not modified with respect to this matter.

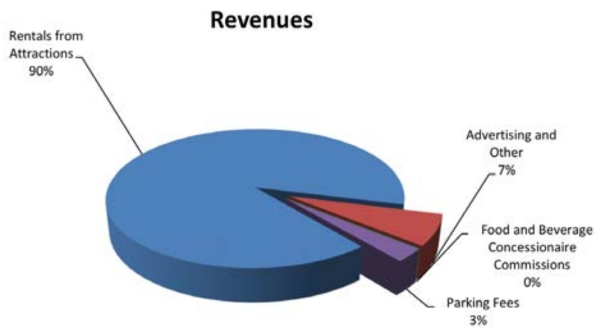
Financial Audit of the Stadium Authority Financial Statements, Fiscal Year Ended June 30, 2021

For the fiscal year ended June 30, 2021, the Authority reported total revenues of $2.9 million and total expenses of $6.7 million, resulting in a net loss of $3.8 million. Revenues consisted of $2.6 million from rentals from attractions, $100,000 in parking fees, and $200,000 in advertising and other revenues. The Authority’s new loss was partially offset with moneys from $9 million in capital contributions. However, the Authority also reported an extraordinary item for an impairment loss of $73.3 million related to the existing stadium structure resulting in a decrease in net position of $68.1 million.

Expenses consisted of $200,000 for depreciation, $4.4 million for personnel services, $900,000 for utilities, and $300,000 for repairs and maintenance. Additional expenses totaled $900,000 and included state central services assessments as well as security, professional services, and other costs. And, as of June 30, 2021, total assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources, resulting in a net position of $18.6 million.

In fiscal year 2021, partly due to the COVID-19 pandemic, the Authority determined that the existing stadium structure experienced a significant and unexpected decline in service utility and determined it will no longer be used for its originally intended purpose of serving as a gathering place for the people of Hawai‘i. Accordingly, the Authority recorded an impairment loss of approximately $73.3 million as of June 30, 2021, which is reported as an extraordinary item in the financial statements and there is no carrying value remaining on the statement of net position for the stadium structure.

The Authority received an unmodified opinion that the financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. There were no reported deficiencies in internal control over financial reporting that were considered to be material weaknesses and no instances of noncompliance or other matters required to be reported under *Government Auditing Standards*.



DEPARTMENT OF THE ATTORNEY GENERAL

Financial and Compliance Audit of the Department of the Attorney General Financial Statements, Fiscal Year Ended June 30, 2020

The Department of the Attorney General (AG) administers and renders legal services, including furnishing written legal opinions to the Governor, State Legislature, and the heads of state departments and offices as the Governor may direct; represents the State in all civil actions in which the State is a party; and approves as to legality and form all documents relating to the acquisition of any land or interest in the State. AG's Child Support Enforcement Agency provides assistance to children by locating parents, establishing paternity and support obligations, and enforcing those obligations.

For the fiscal year ended June 30, 2020, AG reported total revenues of $130.3 million and total expenses of $124.2 million, resulting in an increase in net position of $6.1 million. Revenues include general revenues of $49.7 million, primarily state appropriations; program revenues consisting of charges for services of $39.6 million; and operating grants and contributions of $41 million. Expenses of $124.2 million consisted of $78.8 million for general administrative and legal services; $24 million for child support enforcement; $14.2 million for crime prevention and justice assistance; and $7.2 million for criminal justice data center activities.

AG received an unmodified opinion that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. AG also received an unmodified opinion on its compliance with major federal programs in accordance with the *Uniform Guidance*. There were no material weaknesses in internal control over financial reporting that were 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 BUDGET AND FINANCE

Financial Audit of the Employees' Retirement System of the State of Hawai'i Financial Statements, Fiscal Year Ended June 30, 2019

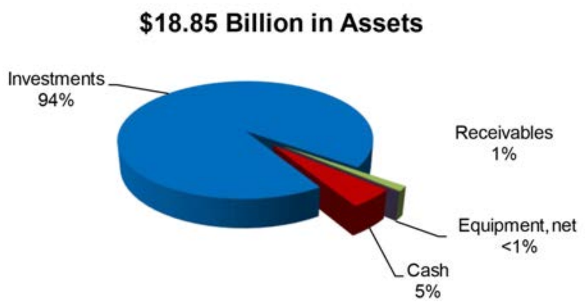
The Employees' Retirement System (ERS) administers a pension benefits program for all state and county employees, including teachers, professors, police officers, firefighters, correction officers, judges, and elected officials.

For the fiscal year ended June 30, 2019, ERS reported total net additions of approximately $2.13 billion. Additions consisted of $1.2 billion from contributions and $933 million in net investment income. Total deductions of approximately $1.5 billion consisted of $1.47 billion for benefit payments; $14 million for administrative expenses; and $17 million for refund of member contributions. As of June 30, 2019, assets totaled $18.69 billion and liabilities totaled $1.46 billion, leaving a net position balance of $17.23 billion. Total assets included investments of $17.89 billion; receivables of $222 million; cash of $576 million; and net equipment of $7 million.

ERS received an unmodified opinion that the financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. There were no reported deficiencies in internal control over financial reporting that were considered to be material weaknesses and no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Financial Audit of the Employees' Retirement System of the State of Hawai'i Financial Statements, Fiscal Year Ended June 30, 2020

For the fiscal year ended June 30, 2020, ERS reported total net additions of approximately $1.74 billion. Additions consisted of $1.39 billion from contributions and $358 million in net investment income. Total deductions of approximately $1.59 billion consisted of $1.55 billion for benefit payments; $18 million for administrative expenses; and $22 million for refund of member contributions. As of June 30, 2020, assets totaled $18.85 billion and liabilities totaled $1.46 billion, leaving a net position balance of $17.39 billion. Total assets included investments of $17.6 billion; receivables of $250 million; cash of $953 million; and net equipment of $8 million.



ERS received an unmodified opinion that the financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. There were no reported deficiencies in internal control over financial reporting that were considered to be material weaknesses and no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Financial Audit of the Hawai'i Employer-Union Health Benefits Trust Fund Financial Statements, Fiscal Year Ended June 30, 2020

The Hawai'i Employer-Union Health Benefits Trust Fund (EUTF) is a state agency that provides eligible State of Hawai'i and county (Honolulu, Hawai'i, Maui, and Kaua'i) employees and retirees and their eligible dependents with health and life insurance benefits. Active employee healthcare benefits and other postemployment benefits (OPEB) for retirees (including their respective beneficiaries) are reported separately for accounting purposes. EUTF is administratively attached to the State of Hawai'i Department of Budget and Finance.

The fund for active employee healthcare benefits. For the fiscal year ended June 30, 2020, revenues totaled $146.7 million and expenses totaled $97.5 million, resulting in net income of $49.2 million. Revenues consisted of premium revenue self-insurance of $103.2 million, experience refunds of $41.8 million, and investment earnings and other revenues of $1.7 million. Expenses consisted of benefit claims expenses of $88.1 million, administrative operating expenses of $8.9 million, depreciation of $100,000, and other operating expenses of $400,000. Assets and deferred outflows of resources totaled $224.5 million and liabilities and deferred inflows of resources totaled $66 million, resulting in a net position of $158.5 million.

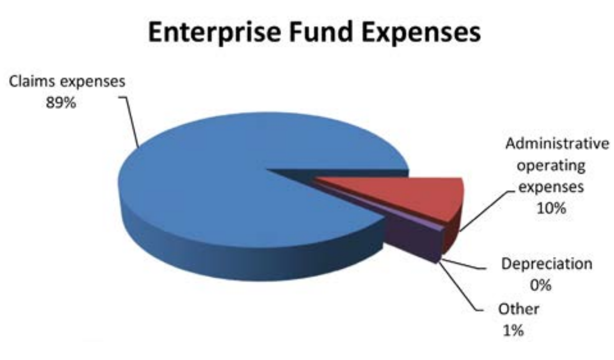
The OPEB Trust Fund.[1] For the fiscal year ended June 30, 2020, total additions of $1.18 billion included $1.11 billion from employer contributions, $71 million from net investment earnings, and $800,000 from other sources. Total deductions were $504.9 million, resulting in a change of fiduciary net position of $679.8 million. As of June 30, 2020, the OPEB Trust Fund net position balance totaled $3.98 billion. The OPEB Trust Fund held $4.05 billion in assets and $67.5 million in liabilities.

[1] The OPEB trust fund was established by the EUTF Board of Trustees in 2013 to receive employer contributions to pre-fund OPEB for retirees and their beneficiaries.

EUTF received an unmodified opinion that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. There were no reported deficiencies in internal control over financial reporting that were considered to be material weaknesses and no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Financial Audit of the Hawai‘i Employer-Union Health Benefits Trust Fund Financial Statements, Fiscal Year Ended June 30, 2021

The fund for active employee healthcare benefits. For the fiscal year ended June 30, 2021, revenues totaled $135.8 million and expenses totaled $91.3 million, resulting in net income of $44.5 million. Revenues consisted of premium revenue self-insurance of $96.1 million, experience refunds of $36.5 million, and investment earnings and other revenues of $3.2 million. Expenses consisted of benefit claims expenses of $81.5 million, administrative operating expenses of $9.3 million, depreciation of $100,000, and other operating expenses of $400,000. Assets and deferred outflows of resources totaled $272.3 million and liabilities and deferred inflows of resources totaled $69.4 million, resulting in a net position of $202.9 million.



The OPEB Trust Fund. For the fiscal year ended June 30, 2021, total additions of $2.59 billion included $1.53 billion from employer contributions, $1.1 billion from net investment earnings, and $500,000 from other sources. Total deductions were $497.4 million, resulting in a change of fiduciary net position of $2.09 million. As of June 30, 2021, the OPEB Trust Fund net position balance totaled $6.08 billion. The OPEB Trust Fund held $6.14 billion in assets and $59.7 million in liabilities.

EUTF received an unmodified opinion that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. There were no reported deficiencies in internal control over financial reporting that were considered to be material weaknesses and no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT AND TOURISM

Financial Audit of the Hawai‘i Community Development Authority Financial Statements, Fiscal Year Ended June 30, 2020

The Hawai‘i Community Development Authority (HCDA) was established in 1976 by Chapter 206E, Hawai‘i Revised Statutes, to establish community development plans in community development districts, to determine community development programs and to cooperate with private enterprises and various components of federal, state, and county governments to bring community plans to fruition. HCDA is administratively attached to the Hawai‘i Department of Business, Economic Development and Tourism.

For the fiscal year ended June 30, 2020, HCDA reported total revenues of $6.5 million and total expenses of $19.8 million, resulting in a decrease in net position of $13.3 million. Revenues consisted of leasing and management activities of $2.4 million, community redevelopment activities of $1.4 million, investment earnings of $600,000, net state appropriations of $1.2 million, and other revenue of $900,000. Total assets and deferred outflows of resources of $185.4 million exceeded total liabilities and deferred inflows of resources of

$20.3 million resulting in a net position of $165.1 million. Of the net position balance of $165.1 million, $21.7 million is unrestricted and may be used to meet ongoing expenses, $1.7 million is restricted for capital projects, and $141.7 million is invested in net capital assets. The agency reported total assets and deferred outflows of resources comprised of net capital assets of $141.7 million, cash of $25.2 million, and receivables, other assets, and deferred outflows of resources of $18.5 million.

HCDA received an unmodified opinion that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. There were no reported deficiencies in internal control over financial reporting that were considered to be material weaknesses and no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Financial Audit of the Hawai‘i Community Development Authority Financial Statements, Fiscal Year Ended June 30, 2021

For the fiscal year ended June 30, 2021, HCDA reported total revenues of $7.6 million and total expenses of $6.5 million, resulting in an increase in net position of $1.1 million. Revenues consisted of leasing and management activities of $1.9 million, community redevelopment activities of $2.2 million, investment earnings of $300,000, net state appropriations of $2.8 million, and other revenue of $500,000. Total assets and deferred outflows of resources of $140.2 million exceeded total liabilities and deferred inflows of resources of $20.2 million resulting in a net position of $120 million. Of the net position balance of $120 million, $23.3 million is unrestricted and may be used to meet ongoing expenses, $2.6 million is restricted for capital projects, and $94.1 million is invested in net capital assets. The agency reported total assets and deferred outflows of resources comprised of net capital assets of $94.1 million, cash of $27.5 million, and receivables, other assets, and deferred outflows of resources of $18.6 million.

The June 30, 2020 fund balance/net position was restated to correct errors made in the prior period related to an understatement of liabilities of $88,000 and an overstatement of net capital assets of $46.2 million.

HCDA received an unmodified opinion that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. There were no significant deficiencies in internal control over financial reporting that would have required reporting under *Government Auditing Standards*. However, the auditors identified two material weaknesses related to the prior period adjustments noted above.

Financial and Compliance Audit of the Hawai‘i Housing Finance and Development Corporation Financial Statements, Fiscal Year Ended June 30, 2020

The mission of the Hawai‘i Housing Finance and Development Corporation (HHFDC) is to increase the supply of workforce and affordable homes by providing tools and resources to facilitate housing development, such as housing tax credits, low-interest construction loans, equity gap loans, and developable land and expedited land use approvals. The agency is administratively attached to the Hawai‘i Department of Business, Economic Development and Tourism.

HHFDC has two types of funds – governmental funds and proprietary funds. HHFDC’s governmental funds are supported primarily by appropriations from the State’s general fund, federal grants, and proceeds of the State’s general obligation bonds allotted to HHFDC. HHFDC’s governmental funds include the general fund, the HOME Investment Partnership Program, the Housing Trust Fund Program, the General Obligation Bond Fund, and the Tax Credit Assistance Program Fund.

HHFDC's proprietary funds operate similarly to business-type activities and are used to account for those activities for which the intent of management is to recover (primarily through user charges) the cost of providing services to customers. HHFDC's proprietary funds include the Rental Housing Revolving Fund, the Dwelling Unit Revolving Fund, the Single Family Mortgage Purchase Revenue Bond Fund, the Grants in Aid Fund, and several other non-major enterprise funds.

For the fiscal year ended June 30, 2020, HHFDC reported total program revenues of $69.2 million and total program expenses of $273 million. In addition, HHFDC reported state allotted appropriations, net of lapses, of $119.1 million for the fiscal year ended June 30, 2020. Together with program revenues and expenses, this resulted in an overall decrease in net position of $84.7 million. As of June 30, 2020, the agency reported total assets and deferred outflows of resources of $1.5 billion, comprised of cash of $650.6 million, investments of $40 million, notes and loans receivable of $624 million, moneys due from the State of $4.6 million, net capital assets of $96.4 million, and other assets and deferred outflows of resources of $80.9 million. The agency reported total liabilities and deferred inflows of resources of $351.9 million, comprised of revenue bonds payable of $16.4 million, unearned income of $21.5 million, estimated future costs of development of $36.7 million, moneys due to other state departments of $248.7 million, and other liabilities and deferred inflows of resources of $28.6 million.

HHFDC received an unmodified opinion that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. HHFDC also received an unmodified opinion on its compliance with major federal programs in accordance with the *Uniform Guidance*. There were no reported deficiencies in internal control over financial reporting that were considered to be material weaknesses 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 that are required to be reported under the *Uniform Guidance*.

Financial and Compliance Audit of the Hawai‘i Housing Finance and Development Corporation Financial Statements, Fiscal Year Ended June 30, 2021

HHFDC's governmental funds for the fiscal year ended June 30, 2021, included the General Fund, the HOME Investment Partnership Program, the Housing Trust Fund Program, the General Obligation Bond Fund, the Coronavirus Relief Fund Program, the Rental Assistance and Mediation Program, and the Tax Credit Assistance Program Fund. HHFDC's proprietary funds for the year ended June 30, 2021, include the Rental Housing Revolving Fund, the Dwelling Unit Revolving Fund, the Single Family Mortgage Purchase Revenue Bond Fund, the Housing Finance Revolving Fund, and several other non-major enterprise funds.

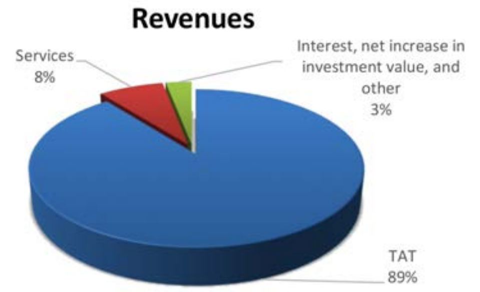
For the fiscal year ended June 30, 2021, HHFDC reported total program revenues of $131.2 million and total program expenses of $103.7 million. In addition, HHFDC reported state-allotted appropriations, net of lapses, of $300.7 million and a gain on sale of capital assets of $31.7 million for the fiscal year ended June 30, 2021. Together with program revenues and expenses, this resulted in an overall increase in net position of $359.8 million. As of June 30, 2021, the agency reported total assets and deferred outflows of resources of $1.6 billion, comprised of cash of $659.9 million, investments of $29.4 million, notes and loans receivable of $724.1 million, moneys due from the State of $4.6 million, net capital assets of $93.4 million, and other assets and deferred outflows of resources of $89.1 million. The agency reported total liabilities and deferred inflows of resources of $96.2 million, comprised of revenue bonds payable of $8.5 million, unearned income of $21.2 million, estimated future costs of development of $35.2 million, moneys due to other state departments of $400,000, and other liabilities and deferred inflows of resources of $30.9 million.

HHFDC received an unmodified opinion that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. HHFDC also received an unmodified opinion on its compliance with major federal programs in accordance with the *Uniform Guidance*. There were no reported deficiencies in internal control over financial reporting that were considered to be material weaknesses 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 that are required to be reported under the *Uniform Guidance*.

Financial Audit of Hawai‘i Tourism Authority Financial Statements, Fiscal Year Ended June 30, 2020

The Hawai‘i Tourism Authority (HTA) is responsible for developing and implementing a strategic tourism marketing plan and developing measures of effectiveness to assess the overall benefits and effectiveness of its marketing plan and its progress toward achieving the agency's strategic plan goals. HTA is also responsible for the Hawai‘i Convention Center. The primary source of funding for HTA's operations is the Transient Accommodations Tax (TAT) collected by the State. HTA is governed by a board of directors comprised of 12 voting members, each of whom is appointed by the Governor. HTA is placed within the Department of Business, Economic Development and Tourism for administrative purposes.

For the fiscal year ended June 30, 2020, HTA reported total revenues of $89 million, along with $5 million in transfers from other state departments, and total expenses of $88 million. Revenues consisted of $79.6 million from TAT, $6.7 million from charges for services, and interest and other revenues of $2.7 million. Total expenses of $88 million consisted of $75.6 million for contracts, $7.5 million for depreciation, and $4.9 million for payroll, administrative, and other expenses.



Total assets and deferred outflows of resources of $325.9 million exceeded total liabilities and deferred inflows of resources of $15.9 million, resulting in a net position of $310 million. Total assets and deferred outflows of resources included cash of $101.8 million, investments of $2 million, land and net capital assets of $194.9 million, and other assets and deferred outflows of resources of $27.2 million.

HTA received an unmodified opinion that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. There were no reported deficiencies in internal control over financial reporting that were considered to be material weaknesses and no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Financial Audit of Hawai‘i Tourism Authority Financial Statements, Fiscal Year Ended June 30, 2021

For the fiscal year ended June 30, 2021, HTA reported total revenues of $46.1 million and total expenses of $49.2 million. Revenues consisted of $38 million from TAT, $5.8 million from charges for services, and interest and other revenues of $2.3 million. Total expenses of $49.2 million consisted of $36.4 million for contracts, $7.9 million for depreciation, and $4.9 million for payroll, administrative, and other expenses.

Total assets and deferred outflows of resources of $320.3 million exceeded total liabilities and deferred inflows of resources of $13.5 million, resulting in a net position of $306.8 million. Total assets and deferred outflows of resources included cash of $104.6 million, land and net capital assets of $192.9 million, and other assets and deferred outflows of resources of $22.8 million.

HTA received an unmodified opinion that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. There were no reported deficiencies in internal control over financial reporting that were considered to be material weaknesses and no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS

Financial Audit of the Department of Commerce and Consumer Affairs Financial Statements, Fiscal Year June 30, 2019

The mission of the State's Department of Commerce and Consumer Affairs (DCCA) is to protect Hawai‘i's consumers and service its business community with respect and fairness to the interests of both. DCCA is made up of nine public-facing divisions: Business Registration Division, Cable Television Division, Division of Consumer Advocacy, Division of Financial Institutions, Insurance Division, Office of Administrative Hearings, Office of Consumer Protection, Professional and Vocational Licensing Division, and Regulated Industries Complaints Office. Also included is the Hawaii Post-Secondary Education Authorization Program and the Public Utilities Commission (an administratively attached agency). DCCA is a specially funded agency that strives to operate under a self-sufficiency model. Fees and revenues collected are to be used for the regulation of the contributing industries.

For the fiscal year ended June 30, 2019, DCCA reported total revenues of $66.4 million, along with $5 million in transfers from other state departments, and total expenses of $55.5 million resulting in a change in net position of $10.9 million. Revenues consisted of charges for services of $54.8 million, operating grants and contributions of $9.5 million, and general revenues of $2.1 million. Total expenses of $55.5 million consisted of $29.5 million for regulation of services, $17.6 million for enforcement of fair business practices, and $8.4 million for general support.

DCCA received a qualified opinion on governmental activities as land and buildings and related depreciation expense has not been recorded in governmental activities. Except for the issue noted, DCCA received an unmodified opinion that its remaining financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. There were two material weaknesses and four significant deficiencies in internal controls over financial reporting that were required to be reported under *Government Auditing Standards*.

Financial Audit of the Public Utilities Commission Financial Statements, Fiscal Year Ended June 30, 2020

The Public Utilities Commission (PUC) was established in 1913 by Act 89. Its primary duty is to protect the public interest by overseeing and regulating public utilities to ensure that they provide reliable service at just and reasonable rates. The PUC regulates all chartered, franchised, certificated, and registered public utility companies operating in the State of Hawai‘i. It also reviews and approves rates, tariffs, charges and fees; determines the allowable rate of earnings in establishing rates; issues guidelines concerning the general management of franchised or certificated utility businesses; and acts on requests for the acquisition, sale, disposition or other exchange of utility properties, including mergers and consolidations. The PUC is composed of three commissioners appointed by the Governor for staggered four-year terms. The PUC is placed within the Department of Commerce and Consumer Affairs for administrative purposes.

For the fiscal year ended June 30, 2020, the PUC reported total revenues of $19.4 million, along with $5 million in transfers from other state departments, and total expenses of $11.3 million. Revenues consisted entirely of program service fees. Revenues were offset by $7.6 million in transfers and lapses of state-allotted appropriations, resulting in a change in net position of $500,000. Total expenses of $11.3 million consisted of $7.1 million for regulation, $3 million for administration, and $1.2 million for compliance.

The PUC received an unmodified opinion that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. There were no material weaknesses in internal controls over financial reporting that were required to be reported under *Government Auditing Standards*. However, the auditors identified two significant deficiencies in internal control over financial reporting.

DEPARTMENT OF EDUCATION

Financial and Compliance Audit of the Department of Education Financial Statements, Fiscal Year Ended June 30, 2020

The Department of Education (DOE) administers the statewide system of public schools and public libraries. DOE is also responsible for administering state laws regarding regulation of private school operations through a program of inspection and licensing and the professional certification of all teachers for every academic and noncollege type of school. Federal grants received to support public school and public library programs are administered by DOE on a statewide basis.

For the fiscal year ended June 30, 2020, DOE reported total revenues of $3.45 billion and total expenditures of $3.26 billion, resulting in an increase in net position of $188 million. Total revenues of $3.45 billion consisted of $2.27 billion in state-allotted appropriations, net of lapsed funds, $851 million in non-imposed employee wages and fringe benefits, $262 million in operating grants and contributions, $12 million in capital grants and contributions, and $58 million in charges for services. Total expenses of $3.26 billion consisted of $3.04 billion for school-related costs, $81 million for state and school complex area administration, $61 million for public libraries, $77 million for capital outlay, and $2 million for transfers out.

DOE received an unmodified opinion that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. DOE also received an unmodified opinion on its compliance with major federal programs in accordance with the *Uniform Guidance*. There were no material weaknesses in internal control over financial reporting that were 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*. However, the auditors identified three significant deficiencies in internal control over compliance.

DEPARTMENT OF HAWAIIAN HOME LANDS

Financial and Compliance Audit of the Department of Hawaiian Home Lands Financial Statements, Fiscal Year Ended June 30, 2020

The Hawaiian Homes Commission Act sets aside certain public lands as Hawaiian home lands to be utilized for the benefit of native Hawaiians. These public lands are managed by the Department of Hawaiian Home Lands (DHHL), a state agency headed by the Hawaiian Homes Commission, whose primary responsibilities are to serve its beneficiaries and to manage this extensive land trust. DHHL provides direct benefits to native Hawaiians in the form of 99-year homestead leases at $1 per year for residential, agricultural, or pastoral purposes, and financial assistance through direct loans, insured loans, or loan guarantees for home purchase, construction, home replacement, or repair. In addition to administering the homesteading program, DHHL leases trust lands not in homestead use at market value and issues revocable permits, licenses, and rights-of-entry. Its financial statements include the public trusts controlled by the Hawaiian Homes Commission.

For the fiscal year ended June 30, 2020, DHHL's total revenues exceeded total expenditures by $12.2 million. Revenues totaled $73.3 million and consisted of program revenue of $32.7 million and state appropriations, transfers, and adjustments of $40.6 million. Expenses totaled $61.1 million. Program revenues were comprised of interest income (approximately 30 percent), grants and contributions (6 percent), revenue from the general lease program (47 percent), and other sources (17 percent).

As of June 30, 2020, total assets of $995 million exceeded total liabilities of $97 million, resulting in a net position balance of $898 million. Total assets included net capital assets of $465 million, cash of $397 million, loans receivable of $94 million, and other assets and deferred outflows of resources of $39 million. Loans receivable consisted of 1,346 loans made to native Hawaiian lessees for the purposes specified in the Hawaiian Homes Commission Act. Loans are for a maximum amount of approximately $453,000 and for a maximum term of 30 years. Interest rates on outstanding loans range up to 10 percent. Total liabilities included notes, bonds, and capital lease obligations totaling $47 million and temporary deposits payable and other liabilities of $50 million.

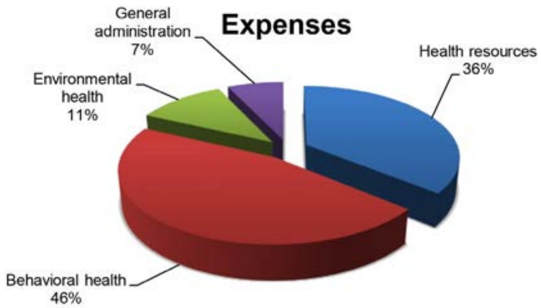
DHHL received an unmodified opinion that the financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. DHHL also received an unmodified opinion on its compliance with major federal programs in accordance with the *Uniform Guidance*. There were no reported deficiencies in internal control over financial reporting that are considered to be material weaknesses and no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. There were no findings that are considered material weaknesses in internal control over compliance in accordance with the *Uniform Guidance*.

DEPARTMENT OF HEALTH

Financial and Compliance Audit of the Department of Health Financial Statements, Fiscal Year Ended June 30, 2020

The Department of Health (DOH) 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. DOH also administers federal grants to support the State's health services and programs.

For the fiscal year ended June 30, 2020, DOH reported total revenues of $847.4 million and total expenses of $809 million, resulting in an increase in net position of $38.4 million. Revenues included $653.3 million from general revenues, $154.2 million from operating grants and contributions, and $39.9 million from service charges. Expenses included $291.6 million for health resources, $374.8 million for behavioral health, $92.2 million for environmental health, and $50.4 million for general administration.



DOH received an unmodified opinion that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. DOH received a qualified opinion on certain major programs over compliance with major federal programs in accordance with the *Uniform Guidance*. There was one material weakness and one significant deficiency in internal control over financial reporting that are required to be reported under *Government Auditing Standards*. There were three material weaknesses in internal control over compliance that are required to be reported in accordance with the *Uniform Guidance*.

Financial Audit of the Department of Health, Deposit Beverage Container Deposit Special Fund Financial Statements, Fiscal Year Ended June 30, 2020

For the fiscal year ended June 30, 2020, the Deposit Beverage Container Deposit Special Fund (Fund) reported total revenues of $27.66 million and total expenditures of $21.94 million, resulting in a change in fund balance of $5.72 million. Total revenues consisted of deposit beverage container fees of $7.92 million, unredeemed deposits of $18.86 million, and interest income of $870,000. Total expenditures consisted of handling and redemption fees of $20.71 million, operating expenditures of $1.17 million, and administrative expenditures of $50,000.

The Fund received an unmodified opinion that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. There were no reported deficiencies in internal control over financial reporting that were considered to be material weaknesses and no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, the auditors identified a significant deficiency in internal control.

Financial and Compliance Audit of the Department of Health, Drinking Water Treatment Revolving Loan Fund Financial Statements, Fiscal Year Ended June 30, 2020

The Safe Drinking Water Act was originally passed by Congress in 1974 to protect public health by regulating the nation's public drinking water supply. The law was amended in 1996 to provide funding for water system improvements. In 1997, the Hawai‘i State Legislature established the Drinking Water Treatment Revolving Loan Fund (Revolving Fund) to receive federal capitalization grants from the U.S. Environmental Protection Agency. The Revolving Fund is used to provide loans in perpetuity to public drinking water systems for construction of drinking water treatment facilities. Such loans may be at or below market interest rates and must be fully amortized within twenty years. The Revolving Fund is administered by the State of Hawai‘i Department of Health's Environmental Management Division, Safe Drinking Water Branch.

For the fiscal year ended June 30, 2020, the Revolving Fund reported total revenues of $20.5 million and total operating expenses of $6.1 million, resulting in a change in net position of $14.4 million. Total revenues consisted of administrative loan fees of $2.4 million, federal contributions of $14.8 million, state contributions of $2.2 million, and other income of $1.1 million. Total expenses consisted of administrative expenses of $2.1 million, state program management of $700,000, water protection of $500,000, and other expenses of $2.8 million.

The Revolving Fund received an unmodified opinion that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles, and an unqualified opinion on its compliance with the Drinking Water State Revolving Funds Program. There were no reported deficiencies in internal control over financial reporting that were considered to be material weaknesses and no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and no findings that were considered material weaknesses in internal control over compliance with the Program.

Financial and Compliance Audit of the Department of Health, Drinking Water Treatment Revolving Loan Fund Financial Statements, Fiscal Year Ended June 30, 2021

For the fiscal year ended June 30, 2021, the Revolving Fund reported total revenues of $17.1 million and total operating expenses of $4.2 million, resulting in a change in net position of $12.9 million. Total revenues consisted of administrative loan fees of $2.5 million, federal contributions of $11.6 million, state contributions of $2.2 million, and other income of $800,000. Total expenses consisted of administrative expenses of $1.7 million, state program management of $700,000, water protection of $800,000, and other expenses of $1.1 million.

The Revolving Fund received an unmodified opinion that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles, and an unqualified opinion on its compliance with the Drinking Water State Revolving Funds Program (Program). There were no reported deficiencies in internal control over financial reporting that were considered to be material weaknesses and no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and no findings that were considered material weaknesses in internal control over compliance with the Program.

Financial and Compliance Audit of the Department of Health, Water Pollution Control Revolving Fund Financial Statements, Fiscal Year Ended June 30, 2020

From 1989 to 1994, the State of Hawai‘i has received more than $72 million in State Revolving Fund (SRF) capitalization grants from the U.S. Environmental Protection Agency (EPA) under the federal Clean Water Act of 1987. Although the Act expired on September 30, 1995, the State continues to receive SRF capitalization grants annually from the EPA and, to date, has been awarded over $317 million. Funds are administered by the State Water Pollution Control Revolving Fund (Revolving Fund), which provides loans in perpetuity to county and state agencies for the construction of wastewater treatment facilities and for non-point source projects.

For the fiscal year ended June 30, 2020, the Revolving Fund reported total revenues of $18.3 million and total operating expenses of $5.1 million, resulting in an increase in net position of $13.2 million. Total revenues consisted of administrative loan fees of $2.4 million, interest income of $1.2 million, state contributions of $2.5 million, federal contributions of $8.9 million, and other income of $3.3 million. Total expenses of $5.1 million consisted of administrative expenses of $2.7 million and other expenses of $2.4 million. Total assets and deferred outflows of resources were $558 million and total liabilities and deferred inflows of resources were $8.2 million. Total assets were comprised of cash and cash equivalents of $97.8 million, loans receivable of $457.1 million, and other assets and deferred outflows of resources of $3.1 million.

The Revolving Fund received an unmodified opinion that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles, and an unqualified opinion on its compliance with federal statutes, regulations, and terms and conditions of federal awards that apply to the Environmental Protection Agency Audit Guide for Clean Water and

Drinking Water State Revolving Funds Program (Program). There were no reported deficiencies in internal control over financial reporting that were considered to be material weaknesses and no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and no findings that were considered material weaknesses in internal control over compliance with the Program.

Financial and Compliance Audit of the Department of Health, Water Pollution Control Revolving Fund Financial Statements, Fiscal Year Ended June 30, 2021

For the fiscal year ended June 30, 2021, the Revolving Fund reported total revenues of $20 million and total operating expenses of $2.9 million, resulting in an increase in net position of $17.1 million. Total revenues consisted of administrative loan fees of $3.2 million, interest income of $1.4 million, state contributions of $2.5 million, federal contributions of $12.3 million, and other income of $600,000. Total expenses of $2.9 million consisted solely of administrative expenses. Total assets and deferred outflows of resources were $575.4 million and total liabilities and deferred inflows of resources were $8.6 million. Total assets were comprised of cash and cash equivalents of $87.1 million, loans receivable of $485.2 million, and other assets and deferred outflows of resources of $3.1 million.

The Revolving Fund received an unmodified opinion that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles, and an unqualified opinion on its compliance with federal statutes, regulations, and terms and conditions of federal awards that apply to the Environmental Protection Agency Audit Guide for Clean Water and Drinking Water State Revolving Funds Program (Program). There were no reported deficiencies in internal control over financial reporting that were considered to be material weaknesses and no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and no findings that were considered material weaknesses in internal control over compliance with the Program.

DEPARTMENT OF HUMAN SERVICES

Financial and Compliance Audit of the Department of Human Services Financial Statements, Fiscal Year Ended June 30, 2020

The Department of Human Services (DHS) works to provide benefits and services to individuals and families in need. The majority of DHS' budget is composed of federal funds. DHS' mission is to direct its funds toward protecting and helping those least able to care for themselves and to provide services designed toward achieving self-sufficiency for clients as quickly as possible. Activities include health care programs; general welfare assistance, employment and support services; child welfare and adult community care services; vocational rehabilitation and services for the blind; youth prevention, delinquency and correction services; and general administration. Attached programs include the Commission on the Status of Women and Commission on Fatherhood.

For the fiscal year ended June 30, 2020, DHS reported total revenues of $3.75 billion and total expenses of $3.79 billion. Revenues consisted of $1.28 billion in state allotments, net of lapsed amounts plus non-imposed employee fringe benefits, and $2.47 billion in operating grants from the federal government. Revenues from these federal grants paid for 64.9 percent of the cost of DHS' activities. Health care and general welfare assistance programs comprised 72.6 and 20.7 percent, respectively, of the total cost.

As of June 30, 2020, DHS' total assets of $618 million included cash of $324 million, receivables of $226 million, and net capital assets of $68 million. Total liabilities of $400 million included vouchers payable of $26 million, accrued wages and employee benefits of $48 million, amounts due to the state general fund of $193 million, accrued medical assistance payable of $119 million, and accrued compensated absences of $14 million.

DHS received an unmodified opinion that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. DHS received a qualified opinion on its compliance for all major federal programs, except for Economic, Social, and Political Development of the Territories, which received an unmodified opinion in accordance with the *Uniform Guidance*. There were no material weaknesses in internal control over financial reporting that were required to be reported under *Government Auditing Standards*. However, the auditors identified one significant deficiency in internal controls over financial reporting. There were 11 material weaknesses in internal control over compliance that were required to be reported in accordance with the *Uniform Guidance*. There were two findings of known questioned costs when likely questioned costs are greater than $25,000 that were required to be reported in accordance with the *Uniform Guidance*.

Financial and Compliance Audit of the Hawai‘i Public Housing Authority Financial Statements, Fiscal Year Ended June 30, 2020

The mission of the Hawai‘i Public Housing Authority (HPHA) is to provide safe, decent, and sanitary dwellings for low- and moderate-income residents of Hawai‘i and to operate its housing programs in accordance with federal and state laws and regulations. The agency is administratively attached to the Hawai‘i Department of Human Services.

For the fiscal year ended June 30, 2020, HPHA reported total revenues of $146 million and total expenses of $166 million, resulting in an increase in net position of $20 million. Total revenues of $146 million consisted of $25 million in charges for services and other revenues, $108 million in operating grants and contributions, $3 million in capital grants and contributions, $9 million in state-allotted appropriations, net of lapsed funds, and $1 million in other non-program revenue. Total expenses of $166 million consisted of $80 million for the rental housing assistance program, $70 million for the rental assistance program, $11 million for the housing development program, and $5 million for other costs.

HPHA received an unmodified opinion that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. HPHA also received an unmodified opinion on its compliance with major federal programs in accordance with the *Uniform Guidance*. There were no reported deficiencies in internal control over financial reporting that were considered to be material weaknesses and no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and no findings that were considered material weaknesses in internal control over compliance that are required to be reported under the *Uniform Guidance*.

Financial Audit of the Hawai‘i Public Housing Authority Financial Statements, Fiscal Year Ended June 30, 2021

For the fiscal year ended June 30, 2021, HPHA reported total revenues of $178 million and total expenses of $187 million, resulting in an increase in net position of $9 million. Total revenues of $178 million consisted of $25 million in charges for services and other revenues, $119 million in operating grants and contributions, $6 million in capital grants and contributions, and $28 million in state-allotted appropriations, net of lapsed funds. Total expenses of $187 million consisted of $91 million for the rental housing assistance program, $80 million for the rental assistance program, $11 million for the housing development program, and $5 million for other costs.

HPHA received an unmodified opinion that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. There were no reported deficiencies in internal control over financial reporting that were considered to be material weaknesses and no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

DEPARTMENT OF LAND AND NATURAL RESOURCES

Financial Audit of the Department of Land and Natural Resources Financial Statements, Fiscal Year Ended June 30, 2019

The Department of Land and Natural Resources (DLNR) manages, administers, and exercises control over public lands, water resources, minerals, and all other interests therein and exercises such powers of disposition as authorized by law. DLNR also manages and administers the State's parks, historical sites, forests, forest reserves, fisheries, wildlife sanctuaries, game management areas, public hunting areas, and natural area reserves. DLNR is headed by the Board of Land and Natural Resources.

For the fiscal year ended June 30, 2019, DLNR reported total revenues of $210.6 million, along with $5 million in transfers from other state departments, and total expenditures and transfers of $201.4 million. Revenues consisted of $93.7 million from state appropriations, net of lapses, $49.2 million from charges for services, $38.1 million from operating grants and contributions, $16.9 million from non-imposed employee fringe benefits, $300,000 from capital grants, and $12.4 million from taxes, interest, and other income. Total expenses consisted of $73.5 million for environmental protection, $65.2 million for cultural and recreation, $24.6 million for economic development, $10.4 million for government-wide support, $7 million for individual rights, and $5 million for public safety. Total transfers out amounted to $15.7 million.

Total assets of $831.4 million exceeded total liabilities of $81.1 million, resulting in a net position balance of $750.3 million. Total assets included net capital assets of $519.8 million, cash of $306.7 million, and receivables of $4.9 million. Total liabilities included vouchers and accrued payables of $28.6 million, amounts due to the State of $11.7 million, general obligation bonds payable of $34.6 million, and unearned revenues of $6.2 million.

DLNR received an unmodified opinion that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. The auditors identified four material weaknesses in internal control over financial reporting that are required to be reported in accordance with *Government Auditing Standards*. There were no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Financial Audit of the Department of Land and Natural Resources Financial Statements, Fiscal Year Ended June 30, 2020

For the fiscal year ended June 30, 2020, DLNR reported total revenues and transfers of $187.8 million and total expenses of $182.5 million, resulting in an increase in net position of $5.3 million. Revenues consisted of $70.4 million from state appropriations, net of lapses, $49.8 million from charges for services, $27.5 million from operating grants and contributions, $21 million from non-imposed employee fringe benefits, $2.2 million from capital grants, and $14.7 million from taxes, interest, and other income. Total transfers in amounted to $2.2 million. Total expenses of $182.5 million consisted of $72.5 million for environmental protection, $64 million for cultural and recreation, $13.4 million for economic development, $22.1 million for government-wide support, $6.9 million for individual rights, and $3.6 million for public safety.

Total assets of $834.4 million exceeded total liabilities of $77.7 million by $756.7 million. Total assets included cash of $295.7 million, receivables of $2.9 million, and land and net capital assets of $535.8 million. Total liabilities included vouchers and accrued payables of $30.5 million, amounts due to the State of $10.9 million, general obligation bonds payable of $32.9 million, and unearned revenues of $3.4 million.

DLNR received an unmodified opinion that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. The auditors identified four material weaknesses in internal control over financial reporting that are required to be reported in accordance with *Government Auditing Standards*. There were no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

DEPARTMENT OF TRANSPORTATION

Financial and Compliance Audit of the Department of Transportation, Administration Division Financial Statements, Fiscal Year Ended June 30, 2020

Four divisions (Airports, Harbors, Highways, and Administration) make up the State's Department of Transportation. The Administration Division (DOT–Administration) consists of the Office of the Director of Transportation, the Statewide Transportation Planning Office, and Departmental Staff Services Offices. Collectively, these offices provide overall administrative support for the Department of Transportation. The financial statements for the division reflect the financial activities of DOT–Administration and the Aloha Tower Development Corporation, which is attached to the Department for administrative purposes. DOT–Administration receives a percentage of the Airports, Harbors, and Highways Divisions' state-allotted appropriations to cover general administration expenses. The Department's Statewide Transportation Planning Office administers certain Federal Transit Administration and Federal Highway Administration grants.

For the fiscal year ended June 30, 2020, DOT–Administration reported total revenues of $34.1 million, total expenses of $26.7 million, and transfers to other DOT divisions of $6.6 million, resulting in an increase in net position of $800,000. The transfers relate to unencumbered cash balances related to assessment revenues from those divisions. Revenues consisted of $22.4 million from assessments, $10 million from federal grants, and $1.7 million from other revenue sources. Total expenses of $26.7 million consisted of $10.4 million for operating grants and $16.3 million for administration.

Total assets of $27.7 million were comprised of cash of $19 million, accounts receivable of $7.1 million, and net capital assets of $1.6 million. Liabilities totaled $17.9 million, including a $2.2 million Aloha Tower Development Corporation note payable to the Harbors Division.

DOT–Administration received an unmodified opinion that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. DOT–Administration also received an unmodified opinion on its compliance with major federal programs in accordance with the *Uniform Guidance*. There were no reported deficiencies in internal control over financial reporting that were considered to be material weaknesses 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*.

Financial and Compliance Audit of the Department of Transportation, Administration Division Financial Statements, Fiscal Year Ended June 30, 2021

For the fiscal year ended June 30, 2021, DOT–Administration reported total revenues of $43.5 million, total expenses of $41 million, and transfers to other DOT divisions of $6 million, resulting in a decrease in net position of $3.5 million. The transfers relate to unencumbered cash balances related to assessment revenues from those divisions. Revenues consisted of $19.3 million from assessments, $22.9 million from federal grants, and $1.3 million from other revenue sources. Total expenses of $41 million consisted of $11.1 million for operating grants and $29.9 million for administration.

Total assets of $20.3 million were comprised of cash of $16.2 million, accounts receivable of $2.7 million, and net capital assets of $1.4 million. Liabilities totaled $14.1 million, including a $1.8 million Aloha Tower Development Corporation note payable to the Harbors Division.

DOT–Administration received an unmodified opinion that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. DOT–Administration also received an unmodified opinion on its compliance with major federal programs in accordance with the *Uniform Guidance*. There were no reported deficiencies in internal control over financial reporting that were considered to be material weaknesses 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*.

Financial and Compliance Audit of the Department of Transportation, Airports Division Financial Statements, Fiscal Year Ended June 30, 2020

The Department of Transportation, Airports Division (DOT–Airports) operates and maintains 15 airports at various locations throughout the State of Hawaiʻi as a single integrated system for management and financial purposes. Daniel K. Inouye International Airport is the principal airport in the airports system, providing facilities for interisland flights, domestic overseas flights, and international flights to destinations in the Pacific Rim. DOT–Airports is authorized to impose and collect rates and charges for the airports system services and properties to generate revenues to fund operating expenses. The Capital Improvements Program is primarily funded by airports system revenue bonds and lease revenue certificates of participation issued by DOT–Airports, federal grants, passenger facility charges, customer facility charges, and DOT–Airports revenues.

For the fiscal year ended June 30, 2020, DOT–Airports reported total revenues of $569 million and total expenses of $561 million, resulting in an increase in net position of $8 million. Revenues consisted of $151 million in concession fees, $74 million in landing fees, $148 million in rentals, $94 million in facility charges, $67 million in federal operating and capital grants, and $35 million in interest and other revenues. Total expenses of $561 million consisted of $311 million for operations and maintenance, $136 million in depreciation, $22 million for administration, and $92 million in interest and other expenses.

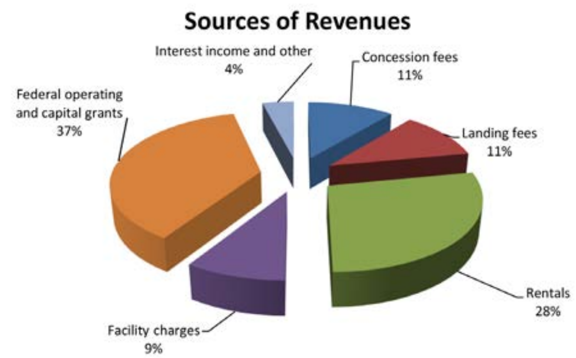
As of June 30, 2020, the department reported total assets and deferred outflows of resources of $5.2 billion, comprised of cash of $1.04 billion, investments of $343 million, net capital assets of $3.66 billion, and $151 million in receivables, other assets, and deferred outflows of resources. Total liabilities and deferred inflows of resources totaled $2.6 billion, which includes $1.38 billion in airports system revenue bonds, $1.2 billion in other liabilities and deferred inflows of resources, and $22 million in special facility revenue bonds.

DOT–Airports received an unmodified opinion that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. DOT–Airports also received an unmodified opinion on its compliance with major federal programs in accordance with the *Uniform Guidance*. There were no reported deficiencies in internal control and no instances of noncompliance or other matters that required reporting. There were no findings that were considered material weaknesses in internal control over compliance in accordance with the *Uniform Guidance*.

Financial Audit of the Department of Transportation, Airports Division Financial Statements, Fiscal Year Ended June 30, 2021

For the fiscal year ended June 30, 2021, DOT–Airports reported total revenues of $540 million and total expenses of $604 million, resulting in a decrease in net position of $64 million. Revenues consisted of $59 million in concession fees, $62 million in landing fees, $152 million in rentals, $49 million in facility charges, $201 million in federal operating and capital grants, and $17 million in interest and other revenues. Total expenses of $604 million consisted of $345 million for operations and maintenance, $158 million in depreciation, $14 million for administration, and $87 million in interest and other expenses.

As of June 30, 2021, the department reported total assets and deferred outflows of resources of $5.45 billion, comprised of cash of $1.04 billion, investments of $240 million, net capital assets of $3.97 billion, and $197 million in receivables, other assets, and deferred outflows of resources. Total liabilities and deferred inflows of resources totaled $2.92 billion, which includes $1.66 billion in airports system revenue bonds, $1.23 billion in other liabilities and deferred inflows of resources, and $22 million in special facility revenue bonds.



DOT–Airports received an unmodified opinion that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. There were no reported deficiencies in internal control and no instances of noncompliance or other matters that required reporting.

Financial Audit of the Department of Transportation, Harbors Division Financial Statements, Fiscal Year Ended June 30, 2020

The Department of Transportation, Harbors Division (DOT–Harbors) is responsible for the statewide system of commercial harbors, which consists of ten harbors on six islands. The system plays a vital role in Hawai‘i’s economy, as the harbors serve as the primary means for goods to enter and exit the State of Hawai‘i. Hawai‘i imports approximately 80 percent of what it consumes, the majority of which enters the state through the commercial harbors system. DOT–Harbors operations are self-sustaining. The Department of Transportation is authorized to impose and collect rates and charges for use of the harbors system and its properties to generate revenues to fund operating expenses. Capital improvements are funded by the revenue and proceeds from the issuance of harbor system revenue bonds.

For the fiscal year ended June 30, 2020, DOT–Harbors reported total revenues of $183.6 million, total expenses of $106.5 million, and capital contributions of $200,000 from federal grants restricted for capital asset acquisition and facility development, resulting in an increase in net position of $77.3 million. Total revenues consisted of $147.9 million in services, $27.1 million in rentals, $7.5 million in interest income, and $1.1 million in other revenues. Total expenses consisted of $32.5 million in depreciation, $18.8 million in harbor operations, $13.6 million in interest and bond costs, $23.7 million for personnel, and $17.9 million in administration and other costs.

The department reported total assets and deferred outflows of resources of $1.49 billion, comprised of cash and cash equivalents of $422.4 million, receivables of $17.1 million, net capital assets of $1.04 billion, and other assets and deferred outflows of resources of $11.8 million. Total liabilities and deferred inflows of resources totaled $416 million, comprised of $265 million in revenue bonds payable and related accrued interest payable, $18.7 million in general obligation bonds payable, $25.1 million in capital lease obligation and related accrued interest payable, $7.1 million due to other state agencies, $16.6 million in accounts and contracts payable, and $83.5 million in other liabilities and deferred inflows of resources.

DOT–Harbors received an unmodified opinion that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. There were no reported deficiencies in internal control over financial reporting that were considered to be material weaknesses and no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Financial Audit of the Department of Transportation, Harbors Division Financial Statements, Fiscal Year Ended June 30, 2021

For the fiscal year ended June 30, 2021, DOT–Harbors reported total revenues of $183.7 million, total expenses of $109 million, and capital contributions of $6.2 million from federal grants restricted for capital asset acquisition and facility development, resulting in an increase in net position of $80.9 million. Total revenues consisted of $153.9 million in services, $26.9 million in rentals, $1.7 million in interest income, and $1.2 million in other revenues. Total expenses consisted of $40.2 million in depreciation, $16.6 million in harbor operations, $13.1 million in interest and bond costs, $25.8 million for personnel, and $13.3 million in administration and other costs.

The department reported total assets and deferred outflows of resources of $1.73 billion, comprised of cash and cash equivalents of $619.1 million, receivables of $21.2 million, net capital assets of $1.08 billion, and other assets and deferred outflows of resources of $11.1 million. Total liabilities and deferred inflows of resources totaled $580.1 million, comprised of $420.7 million in revenue bonds payable and related accrued interest payable, $16.2 million in general obligation bonds payable, $24 million in capital lease obligation and related accrued interest payable, $8 million due to other state agencies, $23.8 million in accounts and contracts payable, and $87.4 million in other liabilities and deferred inflows of resources.

DOT–Harbors received an unmodified opinion that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. There were no reported deficiencies in internal control over financial reporting that were considered to be material weaknesses and no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Financial and Compliance Audit of the Department of Transportation, Highways Division Financial Statements, Fiscal Year Ended June 30, 2020

The mission of the Department of Transportation, Highways Division (DOT–Highways), is to provide a safe, efficient, and sustainable State Highway System that ensures the mobility of people and goods within the state. The division is charged with maximizing available resources to provide, maintain, and operate ground transportation facilities and support services that promote economic vitality and livability in Hawai‘i.

The department also works with the Statewide Transportation Planning Office on innovative and diverse approaches to congestion management.

For the fiscal year ended June 30, 2020, DOT–Highways reported total revenues of $491 million and total expenses of $522 million, resulting in a decrease in net position of $31 million. Revenues consisted of $227 million in tax collections; $190 million in grants and contributions primarily from the Federal Highway Administration; $51 million in charges for services; and $23 million in investment income and other revenues. Expenses consisted of $158 million for operations and maintenance; $209 million in depreciation; $140 million for administration and other expenses; and $15 million in interest.

Total assets and deferred outflows of resources of $5.44 billion were comprised of cash and investments of $365 million; net capital assets of $5.01 billion; and $66 million in other assets and deferred outflows of resources. Total liabilities of $667 million included $493 million in revenue bonds and $174 million in other liabilities. DOT–Highways has numerous capital projects ongoing statewide; construction in progress totaled $303 million at the end of the fiscal year.

DOT–Highways received an unmodified opinion that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. DOT–Highways also received an unmodified opinion on its compliance with major federal programs in accordance with the *Uniform Guidance*. There were no material weaknesses in internal controls over financial reporting that were required to be reported under *Government Auditing Standards*. However, the auditors identified one significant deficiency 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*. However, the auditors identified three significant deficiencies in internal control over compliance.

Financial and Compliance Audit of the Oʻahu Metropolitan Planning Organization Financial Statements, Fiscal Year Ended June 30, 2020

Federal highway and transit statutes require urbanized areas greater than 50,000 in population to designate a metropolitan planning organization as a condition for spending federal highway or transit funds. Oʻahu Metropolitan Planning Organization (OahuMPO) is the designated metropolitan planning organization for the island of Oʻahu. Federal Transit Administration Grants are made to OahuMPO through the Department of Transportation's Statewide Transportation Planning Office. The agency serves as the decision-making body responsible for carrying out continuing, comprehensive, and cooperative transportation planning and programming for the island of Oʻahu.

For the fiscal year ended June 30, 2020, OahuMPO reported total revenues of approximately $2.2 million and total expenses of approximately $2.2 million, resulting in minimal change in net position. Revenues consisted of $1.76 million from federal grants and $439,000 in contributions from the State of Hawaiʻi and City and County of Honolulu.

Total expenses consisted of $147,000 for transportation forecasting and long-range planning, $218,000 for short-range transportation system and demand management planning, $37,000 for transportation monitoring and analysis, $254,000 for emergency management, and $1.57 million for program coordination and administration.

OahuMPO received an unmodified opinion that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. OahuMPO received an unqualified opinion on its compliance with major federal programs in accordance with the *Uniform Guidance*. There were no reported deficiencies in internal control over financial reporting that were considered to be material weaknesses and no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. There were no findings that are considered material weaknesses in internal control over compliance in accordance with the *Uniform Guidance*. Findings identified in the prior year audit have been resolved.

Financial and Compliance Audit of the O‘ahu Metropolitan Planning Organization Financial Statements, Fiscal Year Ended June 30, 2021

For the fiscal year ended June 30, 2021, OahuMPO reported total revenues of approximately $3.1 million and total expenses of approximately $3.1 million, resulting in minimal change in net position. Revenues consisted of $2.5 million from federal grants and $618,000 in contributions from the State of Hawai‘i and City and County of Honolulu.

Total expenses consisted of $26,000 for transportation forecasting and long-range planning, $1.4 million for short-range transportation system and demand management planning, $75,000 for transportation monitoring and analysis, $22,000 for emergency management, and $1.6 million for program coordination and administration.

OahuMPO received an unmodified opinion that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. OahuMPO received an unqualified opinion on its compliance with major federal programs in accordance with the *Uniform Guidance*. There were no reported deficiencies in internal control over financial reporting that were considered to be material weaknesses and no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. There were no findings that are considered material weaknesses in internal control over compliance in accordance with the *Uniform Guidance*.

Office of the Auditor Appropriations and Expenditures on a Budgetary Basis for the Fiscal Year Ended June 30, 2021

Appropriations

Act 1, SLH 2020 (Operations)	$3,209,915
Act 1, SLH 2020 (Special Studies)	150,000
Act 1, SLH 2020 (Audit Revolving Fund)	2,800,000
Act 1, SLH 2020 (Accrued Vacation Payments)	68,106
	$6,228,021

Expenditures

Staff salaries	$1,980,849
Vacation payments	0
Contractual services (operational)	87,224
Other expenses	77,017
Special studies	0
Contractual services (Audit Revolving Fund)	2,800,000
	4,945,090

Excess of Appropriation over Expenditures

Act 1, SLH 2020 (operations)	$1,064,825
Act 1, SLH 2020 (special studies)	150,000
Act 1, SLH 2020 (Audit Revolving Fund)	0
Act 1, SLH 2020 (Accrued Vacation Payments)	68,106
	$1,282,931

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