

April 12, 2023

VIA EMAIL

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

VIA EMAIL

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

RE: Financial and Compliance Audit of the Department of Health

Dear President Kouchi and Speaker Saiki:

The audit report on the financial statements and compliance of the Department of Health for the fiscal year ended June 30, 2022, was issued on March 30, 2023. The Office of the Auditor retained KMH LLP to perform the financial and compliance audit. For your information, we are attaching a copy of the three-page Auditor's Summary of the financial and compliance audit report.

You may view the financial and compliance audit report and Auditor's Summary on our website at:

https://files.hawaii.gov/auditor/Reports/2022_Audit/DOH2022.pdf; and

https://files.hawaii.gov/auditor/Reports/2022_Audit/DOH_Summary_2022.pdf.

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

Very truly yours,

Leslie H. Kondo
State Auditor

LHK:LYK:emo

Attachment

cc/attach (Auditor's Summary only): Members of the Senate
Members of the House of Representatives
Carol Taniguchi, Senate Chief Clerk
Brian Takeshita, House Chief Clerk

Auditor's Summary

Financial and Compliance Audit of the Department of Health

Financial Statements, Fiscal Year Ended June 30, 2022



PHOTO: OFFICE OF THE AUDITOR

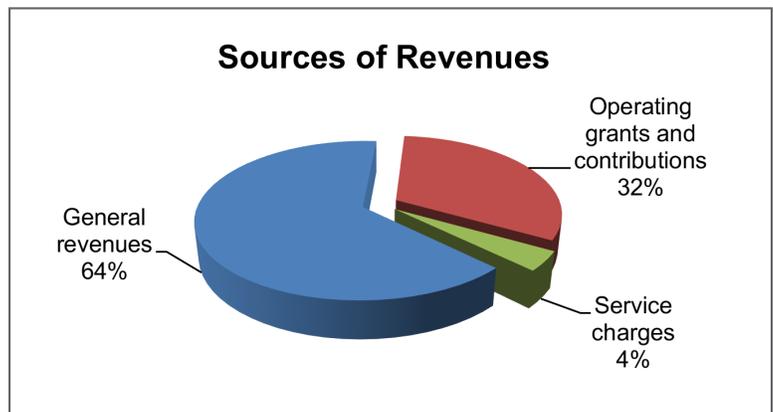
***THE PRIMARY PURPOSE** of the audit was to form an opinion on the fairness of the presentation of the financial statements for the Department of Health, as of and for the fiscal year ended June 30, 2022, and to comply with Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), which established audit requirements for state and local governmental units that receive federal awards. The audit was conducted by KMH LLP.*

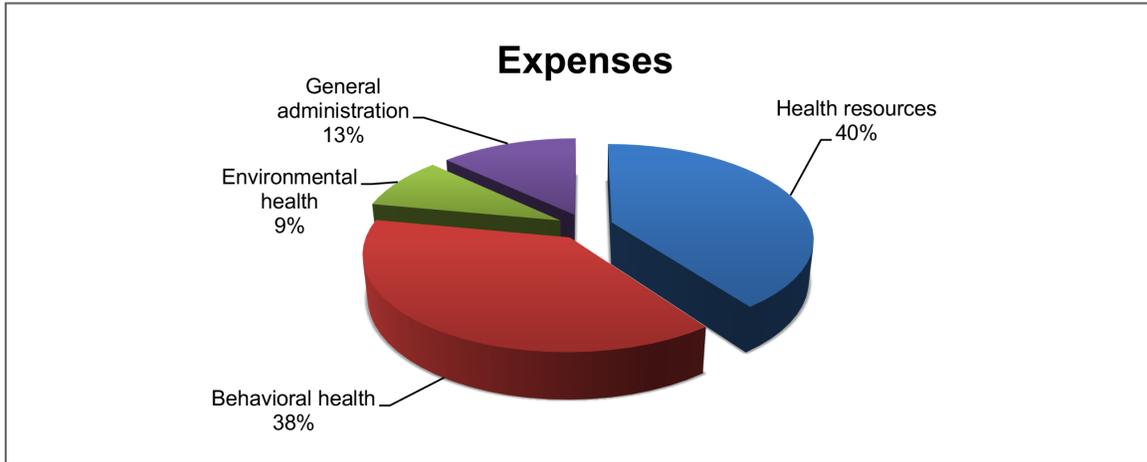
About the Department

The mission of the Department of Health (DOH) is to protect and improve the health and environment for all people in Hawai'i. 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. It administers federal grants to support the State's health services and programs and is organized into four major administrations: Behavioral Health Services Administration, Health Resources Administration, Environmental Health Administration, and General Administration.

Financial Highlights

FOR THE FISCAL YEAR ended June 30, 2022, DOH reported total revenues of \$1.01 billion and total expenses of \$960.6 million, resulting in an increase in net position of \$53 million. Revenues included \$645.5 million from general revenues, \$322.3 million from operating grants and contributions, and \$45.8 million from service charges.





Expenses included \$381.8 million for health resources, \$364.4 million for behavioral health, \$85.2 million for environmental health, and \$129.2 million for general administration.

As of June 30, 2022, total assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources by \$1.33 billion. Total assets and deferred outflows of resources of \$1.55 billion included (1) cash of \$532 million, (2) receivables of \$45 million, (3) loans receivable of \$729 million, (4) accrued interest and loan fees of \$2 million, (5) deferred outflows of resources of \$1 million, and (6) net capital assets of \$239 million. Total liabilities and deferred inflows of resources totaled \$213 million. DOH's net position of \$1.33 billion is comprised of a restricted amount of \$877 million, of which \$831 million is for loans; an unrestricted amount of \$220 million; and net investment in capital assets of \$239 million.

Auditors' Opinions

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 an unmodified opinion on its compliance for all major federal programs, except for Block Grants for Community Mental Health Services, Rural Health Research Centers, Mental Health Disaster Assistance and Emergency Mental Health, and Substance Abuse and Mental Health Services, which received a qualified opinion in accordance with the *Uniform Guidance*.

Findings

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 two significant deficiencies that are required to be reported under *Government Auditing Standards*. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. The significant deficiencies are described on pages 97-100 of the report.

There were six material weaknesses and one significant deficiency in internal control over compliance that are required to be reported in accordance with the *Uniform Guidance*. The material weaknesses are described on pages 101-104 and 107-114 of the report and the significant deficiency is described on pages 105-106 of the report.

A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.



Link to the complete report:

Financial and Compliance Audit

https://files.hawaii.gov/auditor/Reports/2022_Audit/DOH2022.pdf

**Department of Health
State of Hawaii**

Financial Statements
June 30, 2022
Together with Independent Auditor's Report

Submitted by

**THE AUDITOR
STATE OF HAWAII**



A Hawaii Limited Liability Partnership

March 30, 2023

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

Dear Mr. Kondo:

This is our report on the financial audit of the Department of Health, the State of Hawaii (Department) as of and for the fiscal year ended June 30, 2022. Our audit was performed in accordance with the terms of our contract with the State of Hawaii and with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) and Government Auditing Standards, Audits of States, Local Governments, and Non-Profit Organizations.

OBJECTIVES OF THE AUDIT

The primary purpose of our audit was to form opinions on the fairness of the presentation of the Department's basic financial statements as of and for the fiscal year ended June 30, 2022, and to comply with the requirements of the Uniform Guidance. The objectives of the audit were as follows:

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



Wilcox Choy
Partner

Sincerely,

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

- Part I – The basic financial statements and related notes to the financial statements of the Department as of and for the fiscal year ended June 30, 2022, and our opinion on the basic financial statements.
- Part II – Our report on internal control over financial reporting and on compliance and other matters.
- Part III – Our report on compliance for each major program and internal control over compliance.
- Part IV – The schedule of findings and questioned costs.
- Part V – The summary schedule of prior audit findings.
- Part VI – Corrective action plan as provided by the Department.

This report is presented in six parts as follows:

ORGANIZATION OF THE REPORT

Our audit was performed in accordance with auditing standards generally accepted in the United States of America as prescribed by the American Institute of Certified Public Accountants; *Government Auditing Standards*, issued by the Comptroller General of the United States; and the provisions of the Uniform Guidance. The scope of our audit included an examination of the transactions and accounting records of the Department for the fiscal year ended June 30, 2022.

SCOPE OF THE AUDIT

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PART I
FINANCIAL SECTION



Independent Auditor's Report

Office of the Auditor
State of Hawaii

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Department of Health, State of Hawaii (Department), as of and for the fiscal year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Department as of June 30, 2022, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparisons for each major fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Department and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Department are intended to present the financial position, the changes in financial position, and, where applicable, its cash flows and budgetary comparisons, of only that portion of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of Hawaii that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2022, the changes in financial position, or, where applicable, its cash flows and budgetary comparisons, for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Department's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Department's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 11 through 22 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements. The schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2023 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

KMH LLP

KMH LLP

Honolulu, Hawaii

March 30, 2023

Department of Health

State of Hawaii

Management Discussion and Analysis
June 30, 2022

This Management's Discussion and Analysis (MD&A) presents a narrative overview and analysis of the financial activities and performance of the Department of Health, State of Hawaii (the Department) during the fiscal year that ended on June 30, 2022. Please read it in conjunction with the Department's financial statements and the related notes to the basic financial statements (which follow this section). The following is a brief description of the contents of those three sections:

Overview of the Basic Financial Statements

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

Government-Wide Financial Statements

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

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

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

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

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

Department of Health

State of Hawaii

Management Discussion and Analysis
June 30, 2022

Fund Financial Statements

The fund financial statements include the Department's: (1) governmental funds, for which activities are funded primarily from appropriations from the State of Hawaii, beverage container deposit program collections, and federal grants and (2) proprietary funds, which consist of revolving loan funds and are reported similar to business activities. The governmental funds are presented on the modified accrual basis of accounting. The proprietary funds are presented on the accrual basis of accounting.

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

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

To reiterate, the Department has three types of funds:

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

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

Department of Health State of Hawaii

Management Discussion and Analysis
June 30, 2022

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

Notes to the Basic Financial Statements

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

Government-wide Financial Highlights

The Department's total net position increased from \$1,283.4 million as of June 30, 2021 to \$1,336.4 million as of June 30, 2022, or by approximately \$53.0 million. The total increase in net position was attributed to increases in the Department's governmental activities net position of \$24.5 million and business-type activities' net position of \$28.5 million during the year.

The Department's governmental activities reported an aggregate increase in net position of approximately \$24.5 million during the year totaling \$504.8 million at June 30, 2022. Note that this is based on the net position at June 30, 2021 of \$480.3 million.

The Department's proprietary funds, consisting of two revolving loan funds, reported an increase in net position of \$28.5 million for fiscal year (FY) 2022. Total net position was \$803.1 million at June 30, 2021 compared to \$831.6 million at June 30, 2022.

Department of Health State of Hawaii

Management Discussion and Analysis
June 30, 2022

Government-Wide Financial Analysis

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

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

	Governmental Activities		Business-Type Activities		Total	
	2022	2021	2022	2021	2022	2021
Current assets	\$ 463,725	\$ 375,494	\$ 173,815	\$ 164,515	\$ 637,540	\$ 540,009
Capital assets	238,805	248,185	539	795	239,344	248,980
Loans receivable, noncurrent	-	-	670,769	651,560	670,769	651,560
Total assets	<u>702,530</u>	<u>623,679</u>	<u>845,123</u>	<u>816,870</u>	<u>1,547,653</u>	<u>1,440,549</u>
Deferred outflows of resources	-	-	1,309	1,760	1,309	1,760
Current liabilities	173,854	117,586	789	826	174,643	118,412
Long term liabilities	23,931	25,823	12,279	13,790	36,210	39,613
Total liabilities	<u>197,785</u>	<u>143,409</u>	<u>13,068</u>	<u>14,616</u>	<u>210,853</u>	<u>158,025</u>
Deferred inflows of resources	-	-	1,718	862	1,718	862
Net position						
Net investment in capital assets	238,805	248,185	539	795	239,344	248,980
Restricted	45,908	41,854	831,107	802,357	877,015	844,211
Unrestricted	220,032	190,231	-	-	220,032	190,231
Total net position	<u>\$ 504,745</u>	<u>\$ 480,270</u>	<u>\$ 831,646</u>	<u>\$ 803,152</u>	<u>\$ 1,336,391</u>	<u>\$ 1,283,422</u>

As noted earlier, changes in net position may serve over time as a useful indicator of the Department's financial position. As of June 30, 2022, the Department's total net position was approximately \$1,336.4 million.

Department of Health State of Hawaii

Management Discussion and Analysis
June 30, 2022

At June 30, 2022, in addition to equity in cash and cash equivalents in the state treasury approximating \$532.4 million, the Department had total loans receivable from county governments in the amount of \$728.6 million arising from its two revolving loan funds. The Department had total liabilities of \$210.9 million at June 30, 2022 of which \$15.1 million relates to accrued wages and employee benefits payable. Approximately \$96.9 million in liabilities relate to vouchers and contracts payable. At June 30, 2022, restricted net position was \$877.0 million. The restrictions arise from legal and contractual agreements.

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

	Governmental Activities		Business-Type Activities		Total	
	2022	2021	2022	2021	2022	2021
Revenue:						
Program revenues:						
Charges for services	\$ 37,513	\$ 40,038	\$ 8,247	\$ 7,677	\$ 45,760	\$ 47,715
Operating grants and contributions	298,087	146,628	24,168	24,671	322,255	171,299
General revenues:						
State appropriated funds	504,096	490,235	-	-	504,096	490,235
Non-imposed fringe benefits	74,943	80,183	-	-	74,943	80,183
Hawaii tobacco settlement special fund	38,093	37,111	-	-	38,093	37,111
Environmental fees and taxes	53,661	49,634	-	-	53,661	49,634
Total revenues	<u>1,006,393</u>	<u>843,829</u>	<u>32,415</u>	<u>32,348</u>	<u>1,038,808</u>	<u>876,177</u>
Expenditures:						
General administration	129,212	74,660	-	-	129,212	74,660
Environmental health administration	76,633	120,904	8,585	7,122	85,218	128,026
Behavioral health services administration	364,373	375,180	-	-	364,373	375,180
Health resources administration	381,778	336,094	-	-	381,778	336,094
Total expenditures	<u>951,996</u>	<u>906,838</u>	<u>8,585</u>	<u>7,122</u>	<u>960,581</u>	<u>913,960</u>
Excess (deficiency) before transfers	54,397	(63,009)	23,830	25,226	78,227	(37,783)
Transfers	<u>(29,922)</u>	<u>147,340</u>	<u>4,664</u>	<u>4,708</u>	<u>(25,258)</u>	<u>152,048</u>
Change in net position	24,475	84,331	28,494	29,934	52,969	114,265
Net position:						
Restatement Adjustments	-	7,237	-	-	-	7,237
Beginning of year	<u>480,270</u>	<u>388,702</u>	<u>803,152</u>	<u>773,218</u>	<u>1,283,422</u>	<u>1,161,920</u>
End of year	<u>\$ 504,745</u>	<u>\$ 480,270</u>	<u>\$ 831,646</u>	<u>\$ 803,152</u>	<u>\$1,336,391</u>	<u>\$1,283,422</u>

Department of Health State of Hawaii

Management Discussion and Analysis
June 30, 2022

Governmental activities increased the Department's net position by \$24.5 million in FY 2022, which was a 5.1 percent increase from FY 2021. The overall increase in governmental activities is the result of increase in revenues offset by increase in expenditures and decrease in transfers. Revenues increased by \$162.6 million, expenditures increased by \$46.6 million and transfers decreased by \$177.3 million.

Revenues of the Department's business-type activities, which was consistent with 2021, consist of the Department's environmental loan programs, one for water pollution control and the other for drinking water treatment. These revenues were generated from charges for services, program investment income, and federal assistance program funds as well as state matching funds. Charges for services consist primarily of administration loan fees and interest income on loans related to the Department's two revolving loan programs. The majority of the programs' investment income is from the Department's participation in the State Treasury Investment Pool System.

For the fiscal year ended June 30, 2022, business-type activities increased the Department's net position by \$28.5 million to \$831.6 million as compared to the fiscal year ended June 30, 2021.

Total government-wide expenditures for FY 2022 were \$960.6 million of which \$952.0 million was for governmental activities. As compared to FY 2021, total government-wide expenditures were \$914.0 million of which \$906.8 million was for governmental activities. Overall, the Department is organized into four major administrations.

The Department's Behavioral Health Services Administration expended 38.3 percent or \$364.4 million of departmental funds with an decrease of \$10.8 million compared to FY 2021. This administration is responsible for providing available and coordinated mental health and substance abuse treatment and prevention programs. Programs within this administration are:

- Adult Mental Health Division (AMHD) that includes the Hawaii State Hospital and Community Mental Health Center Branches;
- Child and Adolescent Mental Health Division which includes seven Family Guidance Centers and the Family Court Liaison Branches;
- Alcohol and Drug Abuse Division which plans for and purchases substance abuse prevention and treatment services for adolescents and adults; and
- Developmental Disabilities Division that services disabled clients in Hawaii while addressing the conditions of the Makin Settlement.

Department of Health State of Hawaii

Management Discussion and Analysis
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The Department's Health Resources Administration expended approximately 40.1 percent of Department funds. FY 2022 expenses for this Administration increased by \$45.7 million compared to FY 2021. Major programs in this administration include:

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

The Department's Environmental Health Administration is responsible for the management of the clean air, clean water, solid and hazardous waste, public health sanitation, vector control, and purity of food and drugs. It expended approximately 8.0 percent of the departmental funds with an decrease of \$44.3 million expended versus FY 2021 on a government-wide basis. This administration also manages both the Water Pollution Control Revolving and the Drinking Water Treatment Revolving Loan Funds.

Finally, the Department's General Administration provides the overall leadership and oversight for the Department. It includes administrative support staff, three district health offices, and six administratively attached agencies. This administration expended approximately 13.6 percent of the departmental funds.

**Department of Health
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Governmental Funds Financial Analysis

The following table presents revenues and expenditures of the governmental funds for FY2022 and FY2021 (\$000):

	<u>2022</u>	<u>2021</u>
Revenues:		
State general fund allotments	\$ 504,096	\$ 490,235
Intergovernmental	295,542	142,451
Non-imposed fringe benefits	74,943	80,183
Taxes, fees, fines and other	63,584	69,982
Hawaii tobacco settlement special fund	38,093	37,111
Deposit beverage container deposit special fund	32,728	25,615
Investment income	1,002	1,059
	<u>1,009,988</u>	<u>846,636</u>
Expenditures:		
General administration	124,129	73,605
Environmental health	77,363	119,311
Behavioral health services	362,422	374,913
Health resources	382,552	332,761
	<u>946,466</u>	<u>900,590</u>
Excess (deficiency) of revenues over expenditures before transfers	<u>\$ 63,522</u>	<u>\$ (53,954)</u>

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

During the fiscal year ended June 30, 2022, general fund revenues were \$499.4 million, including \$74.8 million for fringe benefits paid directly from the State general fund. General fund expenditures were \$551.7 million.

In FY 2022, the DBCDSF earned revenues of \$32.7 million from beverage container deposit administrative fees and unredeemed containers income. Of this amount received, \$27.7 million in expenditures were paid to redemption centers or utilized to fund the program. The fund collected \$51.5 million in deposits from distributors and repaid \$31.2 million in deposits to consumers during FY 2022.

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

The WPCRF accounts for federal and state funds used to provide loans to county governments for the construction of wastewater treatment facilities and the repayment of principal, interest and fees from such loans and investment of such monies. During FY 2022, WPCRF received \$12.3 million and \$2.5 million of federal and state funds, respectively. WPCRF also disbursed \$56.1 million in loan proceeds and collected \$39.2 million in principal repayments in 2022. As compared to 2021, the fund collected \$12.3 million and \$2.5 million in federal and state contributions, respectively, disbursed \$65.1 million in loan proceeds, and collected \$37.0 million in principal payments.

The DWTRLF accounts for federal and state funds used to provide loans and other types of financial assistance to public water systems for drinking water infrastructure and the repayment of principal interest and fees from such loans and the investment of such monies. During FY 2022, DWTRLF received \$10.7 million and \$2.2 million of federal and state funds, respectively. DWTRLF also disbursed \$24.2 million in loan proceeds and collected \$14.4 million in principal repayments in 2022. As compared to 2021, the DWTRLF collected \$11.6 million and \$2.2 million in federal and state contributions, respectively, disbursed \$30.5 million in loan proceeds, and collected \$13.2 million in principal payments.

Department of Health State of Hawaii

Management Discussion and Analysis
June 30, 2022

Budgetary Analysis

The following budget information relates to the general fund, deposit beverage container deposit special fund and coronavirus state fiscal recovery funds – emergency medical service for 2022:

	Budgeted Amounts (\$000)		Actual on a Budgetary
	Original	Final	Basis (\$000)
General fund			
Revenues	\$ 530,413	\$ 530,413	\$ 510,028
Expenditures			
General administration	122,834	122,384	119,375
Environmental health	25,527	25,527	23,192
Behavioral health	305,324	303,970	292,474
Health resources	76,727	78,532	74,988
Deposit beverage container deposit special fund			
Revenues	71,139	71,139	62,926
Expenditures	71,139	71,139	67,563
Coronavirus state fiscal recovery funds - emergency medical service			
Revenues	84,257	84,257	84,257
Expenditures	84,257	84,257	84,257

The deposit beverage container program recognized revenues on a budgetary basis of \$62.9 million, which is based on the actual number of containers sold. In fiscal year 2021, there were 955.1 million containers sold. The amount of containers sold increased to 1,022.2 million in fiscal year 2022.

Department of Health State of Hawaii

Management Discussion and Analysis
June 30, 2022

Capital Assets

As of June 30, 2022, the Department's governmental activities had invested approximately \$238.8 million (net of accumulated depreciation) in a broad range of capital assets. See Note 4 to the Department's basic financial statements for a description of capital assets activities for the fiscal year ended June 30, 2022.

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

	<u>2022</u>	<u>2021</u>
Land	\$ 1,018	\$ 1,018
Land improvements	3,305	3,305
Buildings and building improvements	381,370	381,033
Furniture and equipment	32,905	31,819
Right of use asset – buildings	1,097	-
Right of use asset – equipment	29	-
	<hr/>	<hr/>
Total	419,724	417,175
Accumulated depreciation	(180,705)	(168,990)
Accumulated amortization	(214)	-
	<hr/>	<hr/>
Total capital assets, net	<u>\$ 238,805</u>	<u>\$ 248,185</u>

Currently Known Facts, Decisions, or Conditions

On March 4, 2020, in response to a new disease commonly known as COVID-19 caused by a novel strain of coronavirus, Hawaii Governor David Y. Ige proclaimed the spread of COVID-19 in Hawaii to be a disaster and declared a state of emergency in Hawaii. Several emergency proclamations have been issued. COVID-19 in Hawaii continues to have an impact.

In FY 2022, AMHD serviced 7,390 clients as compared to the 7,992 clients serviced in FY 2021. AMHD's Crisis Line of Hawaii (formerly known as Access Line) continues to provide short term confidential counseling, information about available help, and mobile support services in a crisis. As of July 1, 2020, the Crisis Line of Hawaii has been consolidated with the Behavioral Health Administration's Hawaii CARES program.

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Management Discussion and Analysis
June 30, 2022

In the developmental disabilities program, the number of participants served by the Developmental Disabilities Division (DDD) increased by 185 participants in FY 2022 over FY 2021. In FY 2022, the DDD served 3,597 participants compared to 3,412 in FY 2021.

The number of DDD participants enrolled in the 1915(c) Home and Community-Based Services (HCBS) waiver increased by 100 participants in FY 2022 over FY 2021. In FY 2022, there were 3,125 participants enrolled in the HCBS waiver as compared to 3,025 participants in FY 2021.

Further, the Federal Medical Assistance Percentage (FMAP) decreased from 53.47 percent to 53.02 percent effective for the period October 2020 to September 2021. The FMAP increased from 53.02 percent to 53.64 percent effective for the period October 2021 to September 2022. Due to the COVID-19 pandemic, the Families First Coronavirus Response Act provided an additional FMAP of 6.2 percent increase effective January 1, 2020 until the end of the quarter in which the Public Health Emergency period ends.

And lastly, the WPCRF executed a total of three loan agreements for \$55.9 million during FY 2022. DWTRLF executed a total of seven loan agreements for \$25.0 million during FY 2022.

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Statement of Net Position
June 30, 2022

	Governmental Activities	Business-Type Activities	Total
<u>Assets and Deferred Outflows of Resources</u>			
Current Assets:			
Equity in cash and cash equivalents and investments in State treasury	\$ 420,165,890	\$ 112,213,526	\$ 532,379,416
Receivables:			
Due from State Treasury	-	1,397,923	1,397,923
Due from other State agency	3,417,287	-	3,417,287
Accrued interest and loan fees	173,799	2,202,762	2,376,561
Accounts receivable, net of allowance for doubtful accounts of \$2,060,625	5,947,922	9,381	5,957,303
Due from Federal government	14,971,318	163,778	15,135,096
Tobacco settlement receivable	19,048,710	-	19,048,710
Current maturities of loans receivable	-	57,827,300	57,827,300
Total current assets	463,724,926	173,814,670	637,539,596
Loans Receivable, net of current maturities	-	670,769,401	670,769,401
Capital Assets, net of accumulated amortization and depreciation	238,804,723	539,172	239,343,895
Total assets	702,529,649	845,123,243	1,547,652,892
Deferred Outflows of Resources	-	1,308,622	1,308,622
Total assets and deferred outflows of resources	<u>\$ 702,529,649</u>	<u>\$ 846,431,865</u>	<u>\$ 1,548,961,514</u>
<u>Liabilities, Deferred Inflows of Resources, and Net Position</u>			
Current Liabilities:			
Vouchers payable	\$ 96,558,180	\$ 369,151	\$ 96,927,331
Accrued wages and employee benefits payable	14,891,140	257,102	15,148,242
Unearned revenue	28,263,225	-	28,263,225
Accrued vacation, current portion	11,130,874	162,852	11,293,726
Workers' compensation liability	1,566,383	-	1,566,383
Due to other State agencies	19,159,478	-	19,159,478
Beverage container deposits	1,953,582	-	1,953,582
Lease liability, current portion	329,039	-	329,039
Accrued interest liability	1,962	-	1,962
Total current liabilities	173,853,863	789,105	174,642,968
Accrued Vacation, net of current portion	23,341,623	414,846	23,756,469
Lease Liability, net of current portion	589,539	-	589,539
Net Pension Liability	-	5,946,580	5,946,580
Net Other Postemployment Benefits Liability	-	5,917,366	5,917,366
Total liabilities	197,785,025	13,067,897	210,852,922
Deferred Inflows of Resources	-	1,717,777	1,717,777
Net Position:			
Net investment in capital assets	238,804,723	539,172	239,343,895
Restricted for:			
Loans	-	831,107,019	831,107,019
Trust fund programs	10,425,142	-	10,425,142
Medicaid programs	35,483,036	-	35,483,036
Unrestricted	220,031,723	-	220,031,723
Total net position	504,744,624	831,646,191	1,336,390,815
Total liabilities, deferred inflows of resources, and net position	<u>\$ 702,529,649</u>	<u>\$ 846,431,865</u>	<u>\$ 1,548,961,514</u>

See accompanying notes to the basic financial statements.

**Department of Health
State of Hawaii**

Statement of Activities
For the Fiscal Year Ended June 30, 2022

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:						
General administration	\$ 129,211,813	\$ 3,808,564	\$ 26,734,405	\$ (98,668,844)	\$ -	\$ (98,668,844)
Environmental health administration	76,632,988	9,767,502	4,616,708	(62,248,778)	-	(62,248,778)
Behavioral health services administration	364,373,072	4,101,964	36,459,333	(323,811,775)	-	(323,811,775)
Health resources administration	381,777,782	19,834,486	230,276,746	(131,666,550)	-	(131,666,550)
Total governmental activities	951,995,655	37,512,516	298,087,192	(616,395,947)	-	(616,395,947)
Business-type Activities --						
Environmental Health Loan Programs	8,585,516	8,247,407	24,168,056	-	23,829,947	23,829,947
Total Department	\$ 960,581,171	\$ 45,759,923	\$ 322,255,248	(616,395,947)	23,829,947	(592,566,000)
General Revenues:						
State general fund allotments, net				504,096,439	-	504,096,439
Nonimposed employee fringe benefits				74,942,954	-	74,942,954
Hawaii tobacco settlement special fund				38,092,831	-	38,092,831
Tobacco tax				19,182,319	-	19,182,319
Deposit beverage container fee				32,396,240	-	32,396,240
Environmental response tax				1,240,787	-	1,240,787
Advance glass disposal fee				841,644	-	841,644
Total general revenues				670,793,214	-	670,793,214
Transfers				(29,922,179)	4,664,000	(25,258,179)
Change in net position				24,475,088	28,493,947	52,969,035
Net Position at July 1, 2021				480,269,536	803,152,244	1,283,421,780
Net Position at June 30, 2022				\$ 504,744,624	\$ 831,646,191	\$ 1,336,390,815

See accompanying notes to the basic financial statements.

**Department of Health
State of Hawaii**

Balance Sheet – Governmental Funds
June 30, 2022

	<u>General</u>	<u>Deposit Beverage Container Deposit</u>	<u>Coronavirus State Fiscal Recovery Funds – Emergency Medical Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:					
Equity in cash and cash equivalents and investments in State Treasury	\$ 115,671,427	\$ 57,158,770	\$ 51,032,932	\$ 196,302,761	\$ 420,165,890
Due from other State agency	-	-	-	3,417,287	3,417,287
Accrued interest receivable	-	44,086	-	129,713	173,799
Accounts receivable, net of allowance for doubtful accounts of \$2,060,625	-	5,947,922	-	-	5,947,922
Due from Federal government	-	-	-	14,971,318	14,971,318
Total assets	<u>\$ 115,671,427</u>	<u>\$ 63,150,778</u>	<u>\$ 51,032,932</u>	<u>\$ 214,821,079</u>	<u>\$ 444,676,216</u>
Liabilities and Fund Balances					
Liabilities:					
Vouchers and contracts payable	\$ 23,170,542	\$ 4,062,899	\$ 44,127,754	\$ 25,196,985	\$ 96,558,180
Accrued wages and employee benefits payable	11,639,182	44,777	-	3,207,181	14,891,140
Unearned revenue	-	10,743	6,905,178	23,898,756	30,814,677
Due to other State agencies	-	-	-	110,768	110,768
Beverage container deposits	-	1,953,582	-	-	1,953,582
Total liabilities	<u>34,809,724</u>	<u>6,072,001</u>	<u>51,032,932</u>	<u>52,413,690</u>	<u>144,328,347</u>
Fund Balances:					
Restricted:					
Medicaid programs	-	-	-	35,483,036	35,483,036
Trust fund programs	-	-	-	10,425,142	10,425,142
Committed:					
Behavioral health services	-	-	-	8,069,525	8,069,525
Environmental health	-	-	-	34,163,800	34,163,800
General administration	-	-	-	4,495,789	4,495,789
Health resources	-	-	-	60,649,984	60,649,984
Capital projects activities	-	-	-	6,592,400	6,592,400
Tobacco settlement program	-	-	-	2,527,713	2,527,713
Deposit beverage container program	-	57,078,777	-	-	57,078,777
Assigned:					
Behavioral health services	26,757,275	-	-	-	26,757,275
Environmental health	827,157	-	-	-	827,157
General administration	41,126,001	-	-	-	41,126,001
Health resources	12,151,270	-	-	-	12,151,270
Unassigned	-	-	-	-	-
Total fund balances	<u>80,861,703</u>	<u>57,078,777</u>	<u>-</u>	<u>162,407,389</u>	<u>300,347,869</u>
Total liabilities and fund balances	<u>\$ 115,671,427</u>	<u>\$ 63,150,778</u>	<u>\$ 51,032,932</u>	<u>\$ 214,821,079</u>	<u>\$ 444,676,216</u>

See accompanying notes to the basic financial statements.

Department of Health State of Hawaii

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2022

Total Fund Balances - Governmental Funds	\$ 300,347,869
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds	238,804,723
Compensated absences reported in the statement of net position do not require the use of current financial resources and therefore are not reported as liabilities in the governmental funds	(34,472,497)
Lease liability and accrued interest liability reported in the statement of net position do not require the use of current financial resources and therefore are not reported as liabilities in the governmental funds	(920,540)
Workers' compensation liability reported in the statement of net position does not require the use of current financial resources and therefore is not reported as a liability in the governmental funds	(1,566,383)
Tobacco settlement receivables not collected within 60 days and not available for current financial resources are therefore not reported as a receivable in the governmental funds	19,048,710
Due to other state agencies related to tobacco settlement receivables reported in the statement of net position does not require the use of current financial resources and therefore is not reported as a liability in the governmental funds	(19,048,710)
Other financing sources not collected within 60 days and therefore not available for current financial resources are reported as unavailable revenues in the governmental funds	<u>2,551,452</u>
Net Position of Governmental Activities	<u><u>\$ 504,744,624</u></u>

See accompanying notes to the basic financial statements.

**Department of Health
State of Hawaii**

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
For the Fiscal Year Ended June 30, 2022

	General	Deposit Beverage Container Deposit	Coronavirus State Fiscal Recovery Funds – Emergency Medical Service	Other Governmental Funds	Total Governmental Funds
Revenues:					
State-alloted appropriations	\$ 499,432,439	\$ -	\$ -	\$ 4,664,000	\$ 504,096,439
Intergovernmental	-	-	77,351,865	218,190,300	295,542,165
Nonimposed employee fringe benefits	74,798,091	7,490	-	137,373	74,942,954
Taxes, fees, fines and other	-	-	-	63,583,593	63,583,593
Investment income	-	237,437	-	764,400	1,001,837
Hawaii tobacco settlement	-	-	-	38,092,831	38,092,831
Deposit beverage container deposit	-	32,728,009	-	-	32,728,009
Total revenues	<u>574,230,530</u>	<u>32,972,936</u>	<u>77,351,865</u>	<u>325,432,497</u>	<u>1,009,987,828</u>
Expenditures:					
General administration	95,296,968	-	-	28,832,454	124,129,422
Environmental health	30,993,871	27,714,548	-	18,654,462	77,362,881
Behavioral health services	323,175,294	-	-	39,246,478	362,421,772
Health resources	102,212,268	-	77,351,865	202,988,005	382,552,138
Total expenditures	<u>551,678,401</u>	<u>27,714,548</u>	<u>77,351,865</u>	<u>289,721,399</u>	<u>946,466,213</u>
Excess of revenues over expenditures	22,552,129	5,258,388	-	35,711,098	63,521,615
Other Financing Sources (Uses):					
Capitalized leases	1,125,913	-	-	-	1,125,913
Transfers in	-	-	-	32,307,360	32,307,360
Transfers out	(4,401,972)	-	-	(56,455,618)	(60,857,590)
Total other financing uses	<u>(3,276,059)</u>	<u>-</u>	<u>-</u>	<u>(24,148,258)</u>	<u>(27,424,317)</u>
Net change in fund balances	19,276,070	5,258,388	-	11,562,840	36,097,298
Fund Balances at July 1, 2021	<u>61,585,633</u>	<u>51,820,389</u>	<u>-</u>	<u>150,844,549</u>	<u>264,250,571</u>
Fund Balances at June 30, 2022	<u>\$ 80,861,703</u>	<u>\$ 57,078,777</u>	<u>\$ -</u>	<u>\$ 162,407,389</u>	<u>\$ 300,347,869</u>

See accompanying notes to the basic financial statements.

Department of Health
State of Hawaii

Reconciliation of the Statement of Revenues, Expenditures and
 Changes in Fund Balances to the Statement of Activities
 For the Fiscal Year Ended June 30, 2022

Net Change in Fund Balances - Total Governmental Funds \$ 36,097,298

**Amounts Reported for Governmental Activities in the
 Statement of Activities are Different Because:**

Governmental funds report capital outlays as expenditures,
 however, in the statement of activities, the cost of those
 assets are allocated over their estimated useful lives and
 reported as depreciation expense.

Expenditures for capital assets	2,852,780	
Less current year depreciation expense and other adjustments	<u>(12,745,270)</u>	(9,892,490)

Transfers in related to capital assets are not financial resources and, therefore, are not reported in the governmental funds.	512,150
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Initial recognition of lease liability provides current financial resources to governmental funds while the repayment of the principal of lease liability consumes the current financial resources of governmental funds. Neither transaction has any effect on the net position. This is the amount by which the initial recognition of lease liability exceeds lease principal payments in the current period.	(920,540)
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Decrease in compensated absences reported in the statement of activities do not require the use of current financial resources and therefore not reported as expenditures in the governmental funds.	1,486,944
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Increase in workers' compensation liability reported in the statement of activities do not require the use of current financial resources and therefore is not reported as expenditures in the governmental funds.	(592,406)
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Other financing sources reported on the statement of activities that do not provide or use current financial resources and are reported as unavailable revenues in the governmental funds, net of prior year transfers recorded in the current period.	<u>(2,215,868)</u>
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Change in Net Position - Governmental Activities	<u><u>\$ 24,475,088</u></u>
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See accompanying notes to the basic financial statements.

**Department of Health
State of Hawaii**

General Fund

Statement of Revenues and Expenditures - Budget and Actual

For the Fiscal Year Ended June 30, 2022

	<u>Original</u>	<u>Final</u>	<u>Actual on Budgetary Basis</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues --				
State allotments	\$ 530,412,830	\$ 530,412,830	\$ 510,028,214	\$ (20,384,616)
Expenditures:				
General administration	122,834,071	122,384,225	119,375,312	3,008,913
Environmental health	25,527,344	25,527,344	23,191,983	2,335,361
Behavioral health services	305,324,390	303,969,510	292,473,597	11,495,913
Health resources	76,727,025	78,531,751	74,987,322	3,544,429
	<u>530,412,830</u>	<u>530,412,830</u>	<u>510,028,214</u>	<u>20,384,616</u>
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to the basic financial statements.

**Department of Health
State of Hawaii**

Special Revenue Funds
Statement of Revenues and Expenditures - Budget and Actual
For the Fiscal Year Ended June 30, 2022

	<u>Original</u>	<u>Final</u>	<u>Actual on Budgetary Basis</u>		<u>Variance</u>
			<u>Deposit Beverage</u>	<u>Coronavirus State</u>	<u>Favorable</u>
			<u>Container Deposit</u>	<u>Fiscal Recovery</u>	<u>(Unfavorable)</u>
				<u>Funds –</u>	
				<u>Emergency</u>	
				<u>Medical Service</u>	
Revenues --					
Intergovernmental revenues:					
Deposit beverage container deposit	\$ 71,138,955	\$ 71,138,955	\$ 62,925,771	\$ -	\$ (8,213,184)
Coronavirus state fiscal recovery funds – Emergency medical service	84,257,043	84,257,043	-	84,257,043	-
	<u>155,395,998</u>	<u>155,395,998</u>	<u>62,925,771</u>	<u>84,257,043</u>	<u>(8,213,184)</u>
Expenditures:					
Environmental health --					
Deposit beverage container deposit	71,138,955	71,138,955	67,563,005	-	3,575,950
Health resources --					
Coronavirus state fiscal recovery funds – Emergency medical service	84,257,043	84,257,043	-	84,257,043	-
	<u>155,395,998</u>	<u>155,395,998</u>	<u>67,563,005</u>	<u>84,257,043</u>	<u>3,575,950</u>
Deficiency of revenues under expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (4,637,234)</u>	<u>\$ -</u>	<u>\$ (4,637,234)</u>

See accompanying notes to the basic financial statements.

**Department of Health
State of Hawaii**

Statement of Net Position - Proprietary Funds
June 30, 2022

	Business-type Activities - Enterprise Fund		
	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Loan Fund	Total
Assets and Deferred Outflows of Resources:			
Current Assets:			
Equity in cash and cash equivalents and investments in State Treasury	\$ 87,480,306	\$ 24,733,220	\$ 112,213,526
Loan fees receivable	971,763	657,911	1,629,674
Accounts receivable	9,381	-	9,381
Accrued interest receivable	390,901	182,187	573,088
Due from Federal Government	-	163,778	163,778
Due from State Treasury	1,063,592	334,331	1,397,923
Current portion of loans receivable	42,920,396	14,906,904	57,827,300
Total current assets	132,836,339	40,978,331	173,814,670
Loans Receivable, net of current portion	458,170,780	212,598,621	670,769,401
Capital Assets, net of accumulated depreciation	212,293	326,879	539,172
Total assets	591,219,412	253,903,831	845,123,243
Deferred Outflows of Resources	737,132	571,490	1,308,622
Total assets and deferred outflows of resources	<u>\$ 591,956,544</u>	<u>\$ 254,475,321</u>	<u>\$ 846,431,865</u>
Liabilities, Deferred Inflows of Resources, and Net Position:			
Current Liabilities--			
Accounts Payable and Other Accrued Liabilities	\$ 305,259	\$ 483,846	\$ 789,105
Accrued Vacation, net of current portion	244,317	170,529	414,846
Net Pension Liability	3,582,860	2,363,720	5,946,580
Net Other Postemployment Benefits Liability	3,359,968	2,557,398	5,917,366
Total liabilities	7,492,404	5,575,493	13,067,897
Deferred Inflows of Resources	685,205	1,032,572	1,717,777
Net Position:			
Net investment in capital assets	212,293	326,879	539,172
Restricted - expendable	583,566,642	247,540,377	831,107,019
Total net position	583,778,935	247,867,256	831,646,191
Total liabilities, deferred inflows of resources, and net position	<u>\$ 591,956,544</u>	<u>\$ 254,475,321</u>	<u>\$ 846,431,865</u>

See accompanying notes to the basic financial statements.

**Department of Health
State of Hawaii**

Statement of Revenues, Expenses and Changes in Net Position - Proprietary Funds
For the Fiscal Year Ended June 30, 2022

	Business-type Activities-Enterprise Fund		
	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Loan Fund	Total
Operating Revenues:			
Interest income from loans	\$ 1,405,299	\$ 731,020	\$ 2,136,319
Administrative loan fees	3,655,073	2,456,015	6,111,088
Total revenues	<u>5,060,372</u>	<u>3,187,035</u>	<u>8,247,407</u>
Expenses:			
Administrative	2,840,637	1,316,908	4,157,545
State program management	-	729,658	729,658
Water protection	-	591,708	591,708
Principal forgiveness	889,919	2,045,686	2,935,605
Small system technical assistance	-	171,000	171,000
Total expenses	<u>3,730,556</u>	<u>4,854,960</u>	<u>8,585,516</u>
Operating income (loss)	<u>1,329,816</u>	<u>(1,667,925)</u>	<u>(338,109)</u>
Nonoperating Revenues:			
State contributions	2,462,000	2,202,000	4,664,000
Federal contributions	12,308,000	10,668,205	22,976,205
Other interest income	864,240	287,933	1,152,173
Other income	24,912	14,766	39,678
Total nonoperating revenues	<u>15,659,152</u>	<u>13,172,904</u>	<u>28,832,056</u>
Change in net position	<u>16,988,968</u>	<u>11,504,979</u>	<u>28,493,947</u>
Net Position:			
Beginning of year	<u>566,789,967</u>	<u>236,362,277</u>	<u>803,152,244</u>
End of year	<u>\$ 583,778,935</u>	<u>\$ 247,867,256</u>	<u>\$ 831,646,191</u>

See accompanying notes to the basic financial statements.

**Department of Health
State of Hawaii**

Statement of Cash Flows - Proprietary Funds
For the Fiscal Year Ended June 30, 2022

	Business-type Activities - Enterprise Fund		
	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Loan Fund	Total
Cash Flows from Operating Activities:			
Payments to employees	\$ (2,614,976)	\$ (1,528,618)	\$ (4,143,594)
Payments to vendors	(127,267)	(1,216,985)	(1,344,252)
Net cash used in operating activities	<u>(2,742,243)</u>	<u>(2,745,603)</u>	<u>(5,487,846)</u>
Cash Flows from Noncapital Financing Activities:			
State contributions	2,462,000	2,202,000	4,664,000
Federal contributions	12,308,000	10,724,828	23,032,828
Net cash provided by noncapital financing activities	<u>14,770,000</u>	<u>12,926,828</u>	<u>27,696,828</u>
Cash Flows from Capital and Related Financing Activities--			
Purchase of Equipment	<u>(37,064)</u>	<u>(64,927)</u>	<u>(101,991)</u>
Cash Flows from Investing Activities:			
Principal repayments on loans	39,246,820	14,431,662	53,678,482
Disbursement of loan proceeds	(56,075,842)	(24,150,316)	(80,226,158)
Interest income from loans	1,378,108	737,958	2,116,066
Administrative loan fees	3,458,069	2,484,345	5,942,414
Other interest income	<u>339,013</u>	<u>89,458</u>	<u>428,471</u>
Net cash used in investing activities	<u>(11,653,832)</u>	<u>(6,406,893)</u>	<u>(18,060,725)</u>
Net increase in cash	336,861	3,709,405	4,046,266
Equity in Cash and Cash Equivalents and Investments in State Treasury:			
Beginning of year	<u>87,143,445</u>	<u>21,023,815</u>	<u>108,167,260</u>
End of year	<u>\$ 87,480,306</u>	<u>\$ 24,733,220</u>	<u>\$ 112,213,526</u>
Reconciliation of Operating Income (Loss) to Net Cash Used in Operating Activities:			
Operating income (loss)	\$ 1,329,816	\$ (1,667,925)	\$ (338,109)
Adjustments to reconcile operating income (loss) to net cash used in operating activities:			
Depreciation expense	140,938	216,685	357,623
Principal forgiveness	889,919	2,045,686	2,935,605
Interest income from loans	(1,405,299)	(731,020)	(2,136,319)
Administrative loan fees	(3,655,073)	(2,456,015)	(6,111,088)
Non-imposed fringe benefits	24,912	14,766	39,678
Change in assets, deferred outflows, liabilities, and deferred inflows:			
Due from State Treasury	5,625	-	5,625
Accounts payable and other accrued liabilities	88,344	(76,554)	11,790
Net deferred outflows/inflows of resources	807,266	499,624	1,306,890
Net pension liability	(814,032)	(494,855)	(1,308,887)
Net other postemployment benefits liability	<u>(154,659)</u>	<u>(95,995)</u>	<u>(250,654)</u>
Net cash used in operating activities	<u>\$ (2,742,243)</u>	<u>\$ (2,745,603)</u>	<u>\$ (5,487,846)</u>

See accompanying notes to the basic financial statements.

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2022

1. Organization and Summary of Significant Accounting Policies

a. Financial Reporting Entity

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

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

The Department is part of the executive branch of the State of Hawaii (State). The financial statements of the Department are intended to present the financial position and the changes in financial position and cash flows, where applicable, of only that portion of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State as of June 30, 2022, and the changes in its financial position and cash flows, and budgetary comparisons, where applicable, for the year then ended in conformity with GAAP. The State Comptroller maintains the central accounts for all State funds and publishes the State's Annual Comprehensive Financial Report (ACFR), which includes the Department's financial activities.

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

On July 7, 2021, Act 212, SLH 2021, was passed to commence the transfer of Oahu Regional Health Care System in its entirety from HHSC to the Department. Act 212 requires the transfer to be completed no later than December 31, 2022. On June 27, 2022, Act 150, SLH 2022 was passed, which extended the transfer date to December 31, 2025. There was no impact to the net position of the Department at June 30, 2022.

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2022

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

b. Government-wide Financial Statements

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

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

c. Fund Financial Statements

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

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

Department of Health

State of Hawaii

Notes to Basic Financial Statements
June 30, 2022

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

c. Fund Financial Statements (continued)

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

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

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

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

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

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

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

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2022

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

c. Fund Financial Statements (continued)

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

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

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

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

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

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

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

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2022

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

c. Fund Financial Statements (continued)

Proprietary Funds (Business-Type Activities)

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

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

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

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

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

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2022

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

e. Due from Other State Agency

Receivables due from other State agency consist of reimbursements from the Department of Human Services (DHS) for Medicaid payments that the Department makes to providers of health services. The Department is responsible to pay the State portion of the Medicaid claims, and DHS reimburses the Department for the Federal portion of the claims. The receivable of approximately \$3,417,000 is comprised of various Medicaid rehabilitation option claims.

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

f. Tobacco Settlement

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

During the year ended June 30, 2018, the State entered into an arbitration settlement with the Tobacco industry. As a result, arbitration credits of approximately \$5.7 million was applied against the annual tobacco settlement payments for the year ending June 30, 2022. There are no outstanding arbitration credits.

The Department recognized approximately \$38.1 million in tobacco settlement revenues during the year ended June 30, 2022. In accordance with GASB Technical Bulletin No. 2004-1, *Tobacco Settlement Recognition and Financial Reporting Entity Issues*, the Department has recorded a tobacco settlement receivable for \$19.0 million in the statement of net position representing tobacco settlements earned for the period January 1, 2022 through June 30, 2022.

**Department of Health
State of Hawaii**

Notes to Basic Financial Statements
June 30, 2022

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

g. Loans Receivable

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

h. Administrative Loan Fees

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

i. Capital Assets

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

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

**Department of Health
State of Hawaii**

Notes to Basic Financial Statements
June 30, 2022

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

i. Capital Assets (continued)

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

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

j. Unearned Revenue

Unearned revenues at the government-wide level and fund level arise when the Department receives resources before it has a legal claim to them. In subsequent periods, when the revenue recognition criteria is met, or when the Department has a legal claim to the resources, the liability for unearned revenue is removed from the statement of net position and balance sheet, and revenue is recognized. Unearned revenues at June 30, 2022 consisted primarily of Federal grant funds for which all requirements had not yet been met.

k. Due to Other State Agencies

Payables to other State agencies consists of funds allocated to other State agencies in accordance with the HTSSF amounted to \$19.2 million as of June 30, 2022.

**Department of Health
State of Hawaii**

Notes to Basic Financial Statements
June 30, 2022

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

l. Beverage Container Deposits and Container Fees

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

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

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

m. Deferred Outflows and Inflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until that time. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. The following is a breakdown of deferred outflows of resources and deferred inflows of resources as of June 30, 2022:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Related to Pensions	\$ 963,090	\$ (1,192,306)
Related to Other Postemployment Benefits	345,532	(525,471)
	<u>\$ 1,308,622</u>	<u>\$ (1,717,777)</u>

Department of Health

State of Hawaii

Notes to Basic Financial Statements
June 30, 2022

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

n. Accrued Vacation

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

o. Accumulated Sick Leave

Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limit, but may be taken only in the event of illness and is not convertible to pay upon termination of employment. However, a State employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the State's Employees' Retirement System (ERS). At June 30, 2022, accumulated sick leave was approximately \$77.2 million.

p. Intrafund and Interfund Transactions

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

q. Use of Estimates

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

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2022

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

r. Leases

The Department has a policy to recognize a lease liability and a right-to-use lease asset (lease asset) in the governmentwide financial statements. The Department recognizes lease liabilities with an initial, individual value of \$25,000 or more with a lease term greater than one year. Variable payments based on future performance of the lessee or usage of the underlying asset are not included in the measurement of the lease liability

At the commencement of a lease, the Department initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. Lease assets are recorded at the amount of the initial measurement of the lease liabilities and modified by any lease payments made to the lessor at or before the commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease term along with any initial direct costs that are ancillary charges necessary to place the lease assets into service. Lease assets are amortized using the straight-line method over the shorter of the lease term or the useful life of the underlying asset, unless the lease contains a purchase option that the State has determined is reasonably certain of being exercised. In this case, the lease asset is amortized over the useful life of the underlying asset.

Key estimates and judgments related to leases include how the Department determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments

- The Department uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the Department generally uses the State's estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the Department is reasonably certain to exercise.

The Department monitors changes in circumstances that would require a remeasurement of its lease and will remeasure any lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability. Lease assets are reported as right to use along with other capital assets and lease liabilities are reported with long-term liabilities on the statement of net position.

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2022

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

s. Encumbrances

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

t. Use of Restricted and Unrestricted Net Position

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

u. Nonmonetary Transactions

The Department receives noncash awards for one of its federally funded programs. The Department expended approximately \$13.7 million in vaccines during the fiscal year ended June 30, 2022 and recorded intergovernmental revenues of the same amount in the accompanying basic financial statements.

v. Administrative Costs

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

w. Pensions

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

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2022

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

x. Other Postemployment Benefits (OPEB)

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

y. Recently Adopted Accounting Pronouncement

During fiscal year 2022, the State implemented GASB Statement No. 87, *Leases*, to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It also establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Upon implementation of GASB Statement No. 87 on July 1, 2021, the Department recognized lease liabilities and right-to-use assets as the lessee. There was no effect on net position previously reported as of July 1, 2021.

During fiscal year 2022, the State implemented GASB issued Statement No. 92, *Omnibus 2020*. The primary objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement did not have a material effect on Department's financial statements.

z. New Accounting Pronouncement

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. The objective of this Statement is to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements for government users. The provisions of this Statement are effective for reporting periods beginning after June 15, 2022. The Department has not yet determined the effect this Statement will have on its financial statements.

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2022

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

z. New Accounting Pronouncement (continued)

In April 2022, GASB issued Statement No. 99, *Omnibus*. The primary objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. Certain requirements of this Statement are effective immediately while other requirements are effective for fiscal years beginning after June 15, 2022 and June 15, 2023, respectively. The Department has not yet determined the effect this Statement will have on its financial statements.

In June 2022, GASB issued Statement No. 100, *Accounting Changes and Error Corrections—an amendment of GASB Statement No. 62*. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements of this Statement are effective for reporting periods beginning after June 15, 2023. The Department has not yet determined the effect this Statement will have on its financial statements.

In June 2022, GASB issued Statement No. 101, *Compensated Absences*. The primary objective of the Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. The requirements of this Statement are effective for reporting periods beginning after December 15, 2023.

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2022

2. Budgeting and Budgetary Control

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

The Budget - Not less than 20 days before the State Legislature convenes in every odd-numbered year, the Governor submits to the State Legislature, and to each member thereof, a budget which contains the program and budget recommendation of the Governor for the succeeding biennium. The budget in general contains: the State program structure; statements of statewide objectives; financial requirements for the next biennium to carry out the recommended programs; a summary of State receipts and revenues in the last completed fiscal year; a revised estimate for the fiscal year in progress; and an estimate for the succeeding biennium.

Legislative Review - The State Legislature considers the Governor's proposed program and financial plan and budget, evaluates alternatives to the Governor's recommendations, adopts programs, and determines the State budget. It may, from time to time, request the Department of Budget and Finance and any agency to conduct such analysis of programs and finances as will assist in determining the State's program and financial plan and budget.

Program Execution - Except as limited by policy decisions of the Governor, appropriations by the State Legislature, and other provisions of law, the agencies responsible for the programs administer the programs and are responsible for their proper management. The appropriations by the State Legislature for a biennium are allocated between the two fiscal years of the biennium in the manner provided in the budget or appropriations act and as further prescribed by the Director of Finance. No appropriation transfers or changes between programs or agencies can be made without legislative authorization. Authorized transfers or changes, when made, should be reported to the State Legislature.

**Department of Health
State of Hawaii**

Notes to Basic Financial Statements
June 30, 2022

2. Budgeting and Budgetary Control (continued)

Budgetary control is maintained at the appropriation line item level established in the appropriation acts. Budgets are adopted for the Department’s funds and are prepared on the cash basis of accounting, except for the encumbrance of purchase orders and contract obligations (basis difference), which is a basis of accounting other than GAAP.

Since budgetary basis differs from GAAP, budget and actual amounts in the budgetary comparison statements are presented on the budgetary basis. A reconciliation of revenues over expenditures (expenditures over revenues) on a budgetary basis at June 30, 2022, to excess of revenues over expenditures presented in conformity with GAAP follows:

	<u>General</u>	<u>Deposit Beverage Container Deposit</u>	<u>Coronavirus State Fiscal Recovery Funds - Emergency Medical Service</u>
(Deficiency) excess of revenues over (under) expenditures and other sources (uses) - actual on a budgetary basis	\$ -	\$ (4,637,234)	\$ -
Current year's appropriations encumbered at June 30, 2022	80,861,703	28,057,622	51,032,932
Expenditures for liquidation of prior fiscal year encumbrances	(440,890,979)	(21,775,180)	-
Accruals and other adjustments	383,707,318	3,613,180	(51,032,932)
Transfers	<u>(4,401,972)</u>	<u>-</u>	<u>-</u>
Net change in fund balances - GAAP basis	<u>\$ 19,276,070</u>	<u>\$ 5,258,388</u>	<u>\$ -</u>

**Department of Health
State of Hawaii**

Notes to Basic Financial Statements
June 30, 2022

3. Loans Receivable

At June 30, 2022, the proprietary funds loans receivable consisted of loans to county governmental units for the water pollution control and drinking water treatment programs. The loans require annual, semi-annual or quarterly payments, including interest at 0.00% to 2.96%, commencing not later than one year after project completion, notice to proceed, final loan disbursement, or three years after loan agreement date. Final payment is due not later than twenty years after project completion. During the year ended June 30, 2022, approximately \$2.9 million in loans was forgiven. All loans and advances forgiven were in accordance with required conditions. Accrued interest receivable on the loans amounted to approximately \$573,000 at June 30, 2022.

The following is a schedule of principal payments due on loans for projects completed or in progress as of June 30, 2022:

<u>Year ending June 30,</u>	
2023	\$ 57,827,300
2024	58,079,707
2025	58,417,352
2026	58,670,621
2027	55,853,734
2028-2032	219,374,386
2033-2037	149,226,785
2038-2042	71,146,816
	<u>\$ 728,596,701</u>

As of June 30, 2022, the Department's proprietary funds were committed under existing loan agreements to the following counties:

	<u>Water Pollution Control Revolving Fund</u>	<u>Drinking Water Treatment Revolving Loan Fund</u>	<u>Total</u>
County of Kauai	\$ 16,859,382	\$ 13,000,000	29,859,382
County of Hawaii	24,740,960	-	24,740,960
County of Maui	7,737,084	4,250,000	11,987,084
	<u>\$ 49,337,426</u>	<u>\$ 17,250,000</u>	<u>\$ 66,587,426</u>

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2022

4. Capital Assets

Capital asset activity for governmental and business-type activities for the year ended June 30, 2022 was as follows:

	<u>Balance July 1, 2021</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2022</u>
Governmental Type Activities:				
Depreciable Assets:				
Land improvements	\$ 3,304,766	\$ -	\$ -	\$ 3,304,766
Building and improvements	381,032,851	512,150	(175,000)	381,370,001
Furniture and equipment	31,819,518	1,726,866	(641,380)	32,905,004
Total depreciable assets	<u>416,157,135</u>	<u>2,239,016</u>	<u>(816,380)</u>	<u>417,579,771</u>
Less Accumulated Depreciation:				
Land improvements	(2,789,040)	(96,123)	-	(2,885,163)
Building and improvements	(141,066,013)	(10,448,392)	175,000	(151,339,405)
Furniture and equipment	(25,135,099)	(1,849,677)	503,952	(26,480,824)
Total accumulated depreciation	<u>(168,990,152)</u>	<u>(12,394,192)</u>	<u>678,952</u>	<u>(180,705,392)</u>
Non-Depreciable Assets:				
Land	<u>1,018,080</u>	<u>-</u>	<u>-</u>	<u>1,018,080</u>
Lease Assets:				
Building	-	1,097,354	-	1,097,354
Equipment	-	28,559	-	28,559
Total lease assets	<u>-</u>	<u>1,125,913</u>	<u>-</u>	<u>1,125,913</u>
Less Accumulated Amortization:				
Building	-	(203,244)	-	(203,244)
Equipment	-	(10,405)	-	(10,405)
Total accumulated amortization	<u>-</u>	<u>(213,649)</u>	<u>-</u>	<u>(213,649)</u>
Governmental activities capital assets, net	<u>\$ 248,185,063</u>	<u>\$ (9,242,912)</u>	<u>\$ (137,428)</u>	<u>\$ 238,804,723</u>
Business Type Activities				
Depreciable Assets:				
Furniture and equipment	\$ 3,464,965	\$ 101,991	\$ -	\$ 3,566,956
Less Accumulated Depreciation:				
Furniture and equipment	(2,670,161)	(357,623)	-	(3,027,784)
Business activities capital assets, net	<u>\$ 794,804</u>	<u>\$ (255,632)</u>	<u>\$ -</u>	<u>\$ 539,172</u>
Total department capital assets, net	<u>\$ 248,979,867</u>	<u>\$ (9,498,544)</u>	<u>\$ (137,428)</u>	<u>\$ 239,343,895</u>

**Department of Health
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Notes to Basic Financial Statements
June 30, 2022

4. Capital Assets (continued)

Current period depreciation expense was charged to functions as follows:

	Governmental Activities	Business-Type Activities	Total
General administration	\$ 3,008,112	\$ -	\$ 3,008,112
Environmental health	649,087	357,623	1,006,710
Behavioral health	5,869,260	-	5,869,260
Health resources	3,081,382	-	3,081,382
Total	<u>\$ 12,607,841</u>	<u>\$ 357,623</u>	<u>\$ 12,965,464</u>

5. Accrued Vacation

The changes to the accrued vacation liability during the year ended June 30, 2022 were as follows:

	Governmental Activities	Business-Type Activities	Total
Balance at July 1, 2021	\$ 35,959,438	\$ 491,390	\$ 36,450,828
Increase	13,901,870	209,860	14,111,730
Decrease	<u>(15,388,811)</u>	<u>(123,552)</u>	<u>(15,512,363)</u>
Balance at June 30, 2022	34,472,497	577,698	35,050,195
Less: Current Portion	<u>11,130,874</u>	<u>162,852</u>	<u>11,293,726</u>
Noncurrent Portion	<u>\$ 23,341,623</u>	<u>\$ 414,846</u>	<u>\$ 23,756,469</u>

6. Beverage Container Deposits

The changes to the beverage container deposit liability during the year ended June 30, 2022 were as follows:

Balance as of July 1, 2021	\$ 4,115,173
Increase: Deposits received from distributors	51,513,837
Decrease: Payments made to recycling centers, net of refunds	(31,154,367)
Decrease: Unredeemed deposits recognized as revenue	<u>(22,521,061)</u>
Balance as of June 30, 2022	<u>\$ 1,953,582</u>

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2022

7. Non-imposed Employee Fringe Benefits

Non-imposed employee fringe benefits related to general and State special fund salaries are funded by the State. These costs, totaling approximately \$74.9 million for the fiscal year ended June 30, 2022, have been reported as revenues and expenditures of the Department's general and State special revenue funds.

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

8. Employee Benefit Plans

a. Employees' Retirement System

i. Plan Description

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

ii. Benefits Provided

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

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2022

8. Employee Benefit Plans (continued)

a. Employees' Retirement System (continued)

ii. Benefits Provided (continued)

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

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

Noncontributory Class

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

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

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

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2022

8. Employee Benefit Plans (continued)

a. Employees' Retirement System (continued)

ii. Benefits Provided (continued)

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

Contributory Plan for Employees Hired Prior to July 1, 2012

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

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

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

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2022

8. Employee Benefit Plans (continued)

a. Employees' Retirement System (continued)

ii. Benefits Provided (continued)

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

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

Contributory Plan for Employees Hired After June 30, 2012

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

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

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2022

8. Employee Benefit Plans (continued)

a. Employees' Retirement System (continued)

ii. Benefits Provided (continued)

Disability and Death Benefits - Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 50% of their average final compensation plus refund of contributions and accrued interest. Ten years of credited service is required for ordinary disability.

For police officers and firefighters, ordinary disability benefits are 1.75% of average final compensation for each year of service and are payable immediately, without an actuarial reduction, at a minimum of 30% of average final compensation.

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

Hybrid Plan for Employees Hired Prior to July 1, 2012

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

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

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2022

8. Employee Benefit Plans (continued)

a. Employees' Retirement System (continued)

ii. Benefits Provided (continued)

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

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

Hybrid Plan for Employees Hired After June 30, 2012

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

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2022

8. Employee Benefit Plans (continued)

a. Employees' Retirement System (continued)

ii. Benefits Provided (continued)

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

iii. Contributions

Contributions are governed by HRS Chapter 88 and may be amended through legislation. The employer rate is set by statute based on the recommendations of the ERS actuary resulting from an experience study conducted every five years. Since July 1, 2005, the employer contribution rate is a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liabilities. The contribution rates for fiscal year 2022 were 41% for police officers and firefighters and 24% for all other employees. Contributions to the pension plan from the Department were \$643,419 for the fiscal year ended June 30, 2022.

Pursuant to Act 17 SLH 2017, employer contributions from the State and counties are expected to increase pursuant to a phased-in contribution rate increase over four years beginning July 1, 2017. The rate for police officers and firefighters increased to 41% on July 1, 2020. The rate for all other employees increased to 24% on July 1, 2020.

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2022

8. Employee Benefit Plans (continued)

a. Employees' Retirement System (continued)

iii. Contributions (continued)

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

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

At June 30, 2022, the Department reported a liability of \$5,946,580 for its proportionate share of net pension liability of the State. The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The State's proportion of the net pension liability was based on a projection of the State's long-term share of contributions to the pension plan relative to projected contributions of all participants, actuarially determined. At June 30, 2021 and 2020, the Department's proportion of the State share was 0.08%.

There was no change in actuarial assumptions as of June 30, 2020 to June 30, 2021. There were no changes in assumptions between the measurement date, June 30, 2021, and the reporting date, June 30, 2022, that are expected to have a significant effect on the proportionate share of the net pension liability.

**Department of Health
State of Hawaii**

Notes to Basic Financial Statements
June 30, 2022

8. Employee Benefit Plans (continued)

a. Employees' Retirement System (continued)

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

For the year ended June 30, 2022, the Department recognized pension expense of \$558,269. At June 30, 2022, the Department reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u> </u>	<u> </u>
Differences between expected and actual experience	\$ 186,559	\$ -
Changes in assumptions	100,347	(70)
Net difference between projected and actual earnings on pension plan investments	-	(1,162,929)
Changes in proportion and difference between Department contributions and proportionate share of contributions	32,765	(29,307)
Department contributions subsequent to the measurement date	643,419	-
	<u>\$ 963,090</u>	<u>\$ (1,192,306)</u>

**Department of Health
State of Hawaii**

Notes to Basic Financial Statements
June 30, 2022

8. Employee Benefit Plans (continued)

a. Employees' Retirement System (continued)

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

The \$643,419 reported as deferred outflows of resources related to pensions resulting from Department contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal year ending June 30,</u>	
2023	\$ (122,338)
2024	(122,980)
2025	(198,518)
2026	(195,645)
2027	<u>(233,154)</u>
	<u>\$ (872,635)</u>

v. Actuarial Assumptions

The total pension liability in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions adopted by the Board of Trustees of the Employees' Retirement System of the State of Hawaii, on August 12, 2019, based on the 2018 Experience Study for the five-year period from July 1 2013 through June 30, 2018:

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

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

**Department of Health
State of Hawaii**

Notes to Basic Financial Statements
June 30, 2022

8. Employee Benefit Plans (continued)

a. Employees' Retirement System (continued)

v. Actuarial Assumptions (continued)

Post-retirement mortality rates are based on the 2019 Public Retirees of Hawaii mortality table with adjustments based on generational projections of the BB projection table for 2019 and full generational projections in future years. Pre-retirement mortality rates are based on multiples of Pub-2010 mortality table based on the occupation of the member.

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

Strategic Allocation (risk-based classes)	Target Allocation	Long-term Expected Real Rate of Return
Broad growth	63.0%	8.0%
Diversifying strategies	37.0%	5.1%
	<u>100.0%</u>	

**Department of Health
State of Hawaii**

Notes to Basic Financial Statements
June 30, 2022

8. Employee Benefit Plans (continued)

a. Employees' Retirement System (continued)

v. Actuarial Assumptions (continued)

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

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

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Department's proportionate share of the net pension liability	<u>\$ 8,117,258</u>	<u>\$ 5,946,580</u>	<u>\$ 4,157,497</u>

Department of Health

State of Hawaii

Notes to Basic Financial Statements
June 30, 2022

8. Employee Benefit Plans (continued)

a. Employees' Retirement System (continued)

vi. Pension Plan Fiduciary Net Position

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

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

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

vii. Payables to the Pension Plan

At June 30, 2022, there was no payable to the ERS.

b. Deferred Compensation Plan

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

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

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2022

8. Employee Benefit Plans (continued)

c. Post-Employment Healthcare and Life Insurance Benefits

i. Plan Description

The State provides certain health care and life insurance benefits to all qualified employees. Pursuant to Act 88, SLH 2001, the state contributes to the EUTF, an agent multiple employer defined benefit plan that replaced Hawaii Public Employees Health Fund effective July 1, 2003. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees, and their dependents. The EUTF issues an annual financial report that is available to the public at <https://eutf.hawaii.gov/reports>. The report may also be obtained by writing to the EUTF at P.O. Box 2121 Honolulu, HI, 96805-2121.

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

For employees hired after June 30, 1996 but before July 1, 2001, and who retire with less than ten years of service, the State makes no contributions. For those retiring with at least ten years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For employees retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Retirees in this category can elect a family plan to cover dependents.

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

Department of Health

State of Hawaii

Notes to Basic Financial Statements
June 30, 2022

8. Employee Benefit Plans (continued)

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

i. Plan Description (continued)

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

ii. Contributions

Contributions are governed by HRS Chapter 87A and may be amended through legislation. Contributions to the OPEB plan from the Department was \$289,009 for the fiscal year ended June 30, 2022. The employer is required to make all contributions for members.

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

At June 30, 2022, the Department reported a liability of \$5,917,366 for its proportionate share of net OPEB liability of the State. The net OPEB liability was measured as of July 1, 2021, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The State's proportion of the net OPEB liability was based on a projection of the State's long-term share of contributions to the EUTF relative to projected contributions of all participants, actuarially determined. The Department's proportion of the net OPEB liability was based on an allocation of the State's net OPEB liability based on the proportionate share of qualified payroll. At June 30, 2021 and 2020, the Department's proportion of the State's share was 0.02% and 0.07%, respectively.

There were no changes in assumptions between the measurement date, July 1, 2021, and the reporting date, June 30, 2022, that are expected to have a significant effect on the proportionate share of the net OPEB liability.

**Department of Health
State of Hawaii**

Notes to Basic Financial Statements
June 30, 2022

8. Employee Benefit Plans (continued)

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

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

For the year ended June 30, 2022, the Department recognized OPEB expense of \$118,511. At June 30, 2022, the Department reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ (484,396)
Changes in assumptions	59,523	(29,956)
Net difference between projected and actual earnings on investments	-	(11,119)
Department contributions subsequent to the measurement date	286,009	-
	<u>\$ 345,532</u>	<u>\$ (525,471)</u>

The \$286,009 reported as deferred outflows of resources related to OPEB resulting from Department contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the fiscal year ended June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Fiscal year ending June 30,</u>	
2023	\$ (110,655)
2024	(108,929)
2025	(99,863)
2026	(109,791)
2027	(36,710)
	<u>\$ (465,948)</u>

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2022

8. Employee Benefit Plans (continued)

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

iv. Actuarial Assumptions

The total OPEB liability in the July 1, 2021 actuarial valuation was determined using the following actuarial methods and assumptions adopted by the EUTF's Board of Trustees on January 13, 2020, based on the experience study covering the five-year period June 30, 2018 as conducted for the ERS, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Salary increases	3.50% to 7.00% including inflation
Investment rate of return	7.00%
Healthcare cost trend rates:	
PPO*	Initial rate of 7.25% declining to a rate of 4.70% after 12 years.
HMO*	Initial rate of 7.25% declining to a rate of 4.70% after 12 years.
Contribution	Initial rate of 5.00% declining to a rate of 4.70% after 9 years.
Dental	4.00%
Vision	2.50%
Life insurance	0.00%

*Blended rates for medical and prescription drug

Mortality rates are based on system-specific mortality tables utilizing scale BB to project generational mortality improvement.

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

**Department of Health
State of Hawaii**

Notes to Basic Financial Statements
June 30, 2022

8. Employee Benefit Plans (continued)

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

iv. Actuarial Assumptions (continued)

Asset Class	Target Allocation	Long-term Expected Rate of Return
Private equity	12.50%	10.19%
U.S. microcap	6.00%	7.62%
U.S. equity	16.00%	6.09%
Non-U.S. equity	11.50%	7.12%
Global options	5.00%	4.33%
Real assets	10.00%	6.16%
Private credit	8.00%	5.83%
TIPS	5.00%	-0.07%
Long treasuries	6.00%	1.06%
Alternative risk premia	5.00%	1.46%
Trend following	10.00%	2.01%
Reinsurance	5.00%	4.44%
	100.00%	

v. Single Discount Rate

The discount rate used to measure the net OPEB liability was 7.00%, based on the expected rate of return on the OPEB plan investments of 7.00%. Beginning with the fiscal year 2019 contribution, the State's funding policy is to pay the recommended actuarially determined contribution, which is based on layered, closed amortization periods. In July 2020, the Governor's office issued the Tenth Proclamation related to the COVID-19 Emergency, allowing employers of the EUTF to suspend Act 268 contributions for the fiscal year ending June 30, 2021 and instead limit their contribution amounts to the OPEB benefits due. This temporary Act 268 suspension would not derail the plan's long-term funding progress. Even if Act 268 is suspended through fiscal year ending June 30, 2025, as is being discussed, the OPEB plan's fiduciary net position is expected to be available to make all projected future benefit payments of current plan members.

**Department of Health
State of Hawaii**

Notes to Basic Financial Statements
June 30, 2022

8. Employee Benefit Plans (continued)

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

v. Single Discount Rate (continued)

Act 229, SLH 2022 suspends the contribution requirement for fiscal years 2022 and 2023. The State has made its full Annual Required Contribution in fiscal year 2022 and intends to make contributions for fiscal years 2022 and 2023. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

vi. Changes in Net OPEB Liability

The following table represents a schedule of changes in the net OPEB liability. The ending balances are as of the measurement date, July 1, 2021.

	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Beginning balance	\$ 7,736,151	\$ 1,568,131	\$ 6,168,020
Service cost	49,789	-	49,789
Interest on the total OPEB liability	165,279	-	165,279
Changes of benefit terms	-	-	-
Difference between expected and actual experience	(70,151)	-	(70,151)
Changes of assumptions	-	-	-
Employer contributions	-	259,551	(259,551)
Net investment income	-	136,062	(136,062)
Benefit payments	(75,529)	(75,529)	-
Administrative expense	-	(70)	70
Other	-	28	(28)
Net changes	69,388	320,042	(250,654)
Ending balance	\$ 7,805,539	\$ 1,888,173	\$ 5,917,366

**Department of Health
State of Hawaii**

Notes to Basic Financial Statements
June 30, 2022

8. Employee Benefit Plans (continued)

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

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

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

	<u>1% Decrease (6.00%)</u>	<u>Discount Rate (7.00%)</u>	<u>1% Increase (8.00%)</u>
Department's proportionate share of the net OPEB liability	<u>\$ 7,319,468</u>	<u>\$ 5,917,366</u>	<u>\$ 4,811,093</u>

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

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

	<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rate</u>	<u>1% Increase</u>
Department's proportionate share of the net OPEB liability	<u>\$ 4,751,373</u>	<u>\$ 5,917,366</u>	<u>\$ 7,423,487</u>

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2022

8. Employee Benefit Plans (continued)

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

ix. OPEB Plan Fiduciary Net Position

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

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

x. Payables to the OPEB Plan

At June 30, 2022, there was no payable to the EUTF.

x. Required Supplementary Information and Disclosures

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

**Department of Health
State of Hawaii**

Notes to Basic Financial Statements
June 30, 2022

9. Commitments and Contingencies

a. Leases

The Department has entered into leases for building space and equipment use. The terms of the agreements range from 2 to 5 years through fiscal year 2028. The calculated interest rate was 2.87%. Principal and interest payment to maturity are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 329,039	\$ 21,475	\$ 350,514
2024	335,923	11,893	347,816
2025	161,365	3,971	165,336
2026	52,373	1,937	54,310
2027	37,990	513	38,503
2028	1,888	4	1,892
	<u>\$ 918,578</u>	<u>\$ 39,793</u>	<u>\$ 958,371</u>

b. Insurance Coverage

The State maintains certain insurance coverage to satisfy bond indenture agreements as well as for other purposes, but is substantially self-insured for all other perils including workers' compensation. The State records a liability for risk financing and insurance related losses, including incurred but not reported, if it is determined that a loss has been incurred and the amount can be reasonably estimated. The State retains various risks and insures certain excess layers with commercial insurance companies. At June 30, 2022, the State recorded estimated losses for workers' compensation, automobile, and general liability claims as long-term liabilities as the losses will not be liquidated with currently expendable available financial resources. The estimated losses will be paid from legislative appropriations of the State's General Fund.

The Department's portion of the State's workers' compensation expenditures for the year ended June 30, 2022 were approximately \$573,000 and \$21,000 for the general fund and other funds, respectively.

**Department of Health
State of Hawaii**

Notes to Basic Financial Statements
June 30, 2022

9. Commitments and Contingencies (continued)

c. Litigation

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

SUPPLEMENTARY INFORMATION

Department of Health
State of Hawaii
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2022

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Project Number	Assistance Listing Number	Passed through to Subrecipients	Total Federal Expenditures
Department of Health and Human Services				
Direct Programs:				
Special Programs for the Aging - Title VII Chapter 3	468	93.041	\$ -	\$ 14,079
Special Programs for the Aging - Title VII Chapter 2:				
COVID 19 Special Programs for the Aging - Title VII Chapter 2	468	93.042	-	90,935
Special Programs for the Aging - Title VII Chapter 2	468	93.042	-	103,435
Subtotal Special Programs for the Aging - Title VII Chapter 2			-	194,370
Special Programs for the Aging - Title III Part D:				
COVID 19 Special Programs for the Aging - Title III Part D	401	93.043	112,731	112,731
Special Programs for the Aging - Title III Part D	401	93.043	29,943	29,943
Subtotal Special Programs for the Aging - Title III Part D			142,674	142,674
Aging Cluster:				
Special Programs for the Aging - Title III Part B - Grants for Supportive Services and Senior Centers:				
COVID 19 Special Programs for the Aging - Title III Part B - Grants for Supportive Services and Senior Centers	401	93.044	545,679	545,679
Special Programs for the Aging - Title III Part B - Grants for Supportive Services and Senior Centers	401	93.044	1,141,399	1,229,278
Subtotal Special Programs for the Aging - Title III Part B - Grants for Supportive Services and Senior Centers:			1,687,078	1,774,957
Special Programs for the Aging - Title III Part C - Nutrition Services:				
COVID 19 Special Programs for the Aging - Title III Part C - Nutrition Services	401	93.045	1,865,130	1,865,130
Special Programs for the Aging - Title III Part C - Nutrition Services	401	93.045	1,935,786	2,491,688
Subtotal Special Programs for the Aging - Title III Part C - Nutrition Services:			3,800,916	4,356,818
Nutrition Services Incentive Program	406	93.053	292,170	292,170
Subtotal Aging Cluster			* 5,780,164	6,423,945
Special Programs for the Aging - Title IV and Title II - Discretionary Projects:				
COVID 19 Special Programs for the Aging - Title IV and Title II - Discretionary Projects	234, 407	93.048	120,326	241,395
Special Programs for the Aging - Title IV and Title II - Discretionary Projects	405	93.048	-	374,080
Subtotal Special Programs for the Aging - Title IV and Title II - Discretionary Projects			120,326	615,475
Alzheimer's Disease Demonstration Grants to States	491, 769	93.051	-	119,602
National Family Caregiver Support, Title III, Part E:				
COVID 19 National Family Caregiver Support, Title III, Part E	401	93.052	66,231	66,231
National Family Caregiver Support, Title III, Part E	401	93.052	654,989	654,989
Subtotal National Family Caregiver Support, Title III, Part E			721,220	721,220

* Denotes Major Federal Program

The accompanying notes are an integral part of this schedule

Department of Health
State of Hawaii
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2022

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Project Number	Assistance Listing Number	Passed through to Subrecipients	Total Federal Expenditures
Department of Health and Human Services (Continued)				
Public Health Emergency Preparedness:	1297	93.069	\$ -	\$ 4,692,426
Medicare Enrollment Assistance Program	765, 766, 767	93.071	-	190,858
Affordable Care Act (ACA) Personal Responsibility Education Program	613	93.092	64,545	222,018
Food and Drug Administration Research	710	93.103	-	163,395
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	430	93.104	-	1,333,352
Maternal and Child Health Federal Consolidated Programs:				
COVID 19 Maternal and Child Health Federal Consolidated Programs	various	93.110	14,999	16,340
Maternal and Child Health Federal Consolidated Programs	various	93.110	732,889	1,034,522
Subtotal Maternal and Child Health Federal Consolidated Programs			747,888	1,050,862
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	247	93.116	-	1,012,356
Emergency Medical Services for Children	670	93.127	-	29,798
Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	298	93.130	-	54,692
Injury Prevention and Control Research and State and Community Based Programs	various	93.136	* 2,014,329	3,007,381
Projects for Assistance in Transition from Homelessness	33208, 34208	93.150	226,994	228,639
Rural Health Research Centers	579	93.155	* 1,970,874	1,970,874
Childhood Lead Poisoning Prevention Projects - State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	780	93.197	114,321	447,723
State Rural Hospital Flexibility Program	415	93.241	136,571	296,803
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	652, 759, 890	93.243	* 2,833,207	3,024,672
Universal Newborn Hearing Screening	416	93.251	64,605	279,336
Immunization Cooperative Agreements:				
COVID 19 Immunization Cooperative Agreements	various	93.268	4,269,362	8,372,853
Immunization Cooperative Agreements	457	93.268	952,775	3,040,012
Subtotal Immunization Cooperative Agreements			* 5,222,137	11,412,865
Adult Viral Hepatitis Prevention and Control	397	93.270	40,000	189,949
Small Rural Hospital Improvement Grant Program:				
COVID 19 Small Rural Hospital Improvement Grant Program	300	93.301	674,536	674,536
Small Rural Hospital Improvement Grant Program	454	93.301	35,693	35,693
Subtotal Small Rural Hospital Improvement Grant Program			710,229	710,229
Early Hearing Detection and Intervention Information System (EHDI-IS) Surveillance Program	301	93.314	18,420	31,084

* Denotes Major Federal Program

The accompanying notes are an integral part of this schedule

Department of Health
State of Hawaii
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2022

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Project Number	Assistance Listing Number	Passed through to Subrecipients	Total Federal Expenditures
Department of Health and Human Services (Continued)				
Epidemiology and Laboratory Capacity for Infectious Diseases:				
COVID 19 Epidemiology and Laboratory Capacity for Infectious Diseases	various	93.323	\$ 37,223,778	\$ 59,603,172
Epidemiology and Laboratory Capacity for Infectious Diseases	700	93.323	-	1,830,653
Subtotal Epidemiology and Laboratory Capacity for Infectious Diseases			<u>37,223,778</u>	<u>61,433,825</u>
State Health Insurance Assistance Program	403	93.324	-	270,706
BOLD Public Health Program	773	93.334	-	160,097
Behavioral Risk Factor Surveillance System	747	93.336	265,048	314,339
COVID 19 Public Health Emergency Response: Cooperative Agreement for				
Emergency Response: Public Health Crisis Response:	various	93.354	2,640,641	3,770,968
National and State Tobacco Control Program	772	93.387	531,368	1,019,002
National Initiative to Address COVID-19 Health Disparities Among				
Populations at High-Risk and Underserved, Including Racial				
and Ethnic Minority Populations and Rural Communities	357, 358	93.391	500,748	701,420
Improving Food Security, Access to Safe Physical Activity, and Social Connectedness	235	93.421	229,250	229,250
Improving the Health of Americans Through Prevention and Management				
of Diabetes and Heart Disease and Stroke	702	93.426	1,102,842	1,562,094
Food Safety and Security Monitoring Project	580	93.448	-	32,176
Community Health Workers for COVID Response and Resilient Communities (CCR)	487	93.495	-	18,287
Community-Based Child Abuse Prevention Grants	270	93.590	214,918	358,334
Developmental Disabilities Basic Support and Advocacy Grants:				
COVID 19 Developmental Disabilities Basic Support and Advocacy Grants	393	93.630	-	13,136
Developmental Disabilities Basic Support and Advocacy Grants	240	93.630	-	633,899
Subtotal Developmental Disabilities Basic Support and Advocacy Grants			<u>-</u>	<u>647,035</u>
COVID 19 Emergency Grants to Address Mental and Substance Use Disorders				
During COVID-19	519	93.665	1,071,278	1,072,598
CRRSA Act 2021 funding for LTC Ombudsman	468	93.747	-	20,000
Medicaid Cluster:				
State Survey and Certification of Health Care Providers and				
Suppliers (Title XVIII) Medicare	various	93.777	-	4,111,005
Medical Assistance Program	891	93.778	3,166,700	4,592,132
Subtotal Medicaid Cluster			<u>* 3,166,700</u>	<u>8,703,137</u>
Paul Coverdell National Acute Stroke Program	396	93.810	-	198
Maternal, Infant and Early Childhood Home Visiting Grant Program	602	93.870	* 2,321,380	2,780,363
National Bioterrorism Hospital Preparedness Program	435	93.889	1,203,945	1,313,398
Cancer Prevention and Control Programs for State, Territorial				
and Tribal Organizations	448	93.898	479,561	852,722
Grants to States for Operation of Offices of Rural Health	299	93.913	62,886	213,456
HIV Care Formula Grants (Ryan White HIV/AIDS Program Part B)	293, 296	93.917	1,344,312	1,344,312

* Denotes Major Federal Program

The accompanying notes are an integral part of this schedule

Department of Health
State of Hawaii
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2022

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Project Number	Assistance Listing Number	Passed through to Subrecipients	Total Federal Expenditures
Department of Health and Human Services (Continued)				
HIV Prevention Activities - Health Department Based	266	93.940	\$ 858,665	\$ 1,465,605
Closing the Gap with Social Determinants of Health Accelerator Plans	34	93.945	12,831	20,543
Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	319	93.946	-	152,075
Block Grants for Community Mental Health Services:				
COVID 19 Block Grants for Community Mental Health Services	38202, 39202	93.958	-	428,450
Block Grants for Community Mental Health Services	38202, 39202	93.958	1,109,580	3,190,766
Subtotal Block Grants for Community Mental Health Services			* 1,109,580	3,619,216
Block Grants for Prevention and Treatment of Substance Abuse:				
COVID 19 Block Grants for Prevention and Treatment of Substance Abuse	592	93.959	29,460	29,565
Block Grants for Prevention and Treatment of Substance Abuse	39204, 40204	93.959	9,115,408	9,202,736
Subtotal Block Grants for Prevention and Treatment of Substance Abuse			9,144,868	9,232,301
Preventive Health Services - Sexually Transmitted Diseases				
Control Grants	268	93.977	-	358,077
Mental Health Disaster Assistance and Emergency Mental Health:				
COVID 19 Mental Health Disaster Assistance and Emergency Mental Health	665	93.982	1,154,266	1,154,266
Mental Health Disaster Assistance and Emergency Mental Health	363	93.982	1,298,755	1,857,289
Subtotal Mental Health Disaster Assistance and Emergency Mental Health			* 2,453,021	3,011,555
Preventive Health and Health Services Block Grant	39203, 40203	93.991	93,350	901,462
Maternal and Child Health Services Block Grant to the States Improvement	39201, 40201	93.994	-	1,562,583
Hospitalization and Care of Hansens'	264	93.UNKNOWN	-	1,078,334
Enumeration at Birth(EAB)/Electronic Death Registration - Hawaii	285	93.UNKNOWN	-	299,034
Hawaii State Mental Health Data Infrastructure Contract for Quality Improvement	318	93.UNKNOWN	-	70,978
Prospective Comparison of TST vs. IGRAs	626	93.UNKNOWN	-	61,683
US FDA Tobacco Retail Inspection Contract/Hawaii State Enforcement	633	93.UNKNOWN	196,946	292,539
Total Department of Health and Human Services Programs			87,156,420	147,524,379
Department of Agriculture				
Direct Programs:				
Plant and Animal Disease, Pest Control, and Animal Care	599	10.025	-	66,612
Special Supplemental Nutrition Program for Women, Infants and Children:				
COVID 19 Special Supplemental Nutrition Program for Women, Infants and Children	603	10.557	-	1,255,300
Special Supplemental Nutrition Program for Women, Infants and Children	275, 295, 550	10.557	3,429,290	26,761,560
Subtotal Special Supplemental Nutrition Program for Women, Infants and Children			* 3,429,290	28,016,860
Total Department of Agriculture Programs			3,429,290	28,083,472

* Denotes Major Federal Program

The accompanying notes are an integral part of this schedule

Department of Health
State of Hawaii
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2022

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Project Number	Assistance Listing Number	Passed through to Subrecipients	Total Federal Expenditures
Environmental Protection Agency				
Direct Programs:				
Air Pollution Control Program Support	233	66.001	\$ -	\$ 851,906
Surveys, Studies, Research, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	294	66.034	-	96,510
State Clean Diesel Grant Program	328	66.040	-	407,324
Multipurpose Grants to States and Tribes	236, 667	66.204	-	118,416
Water Pollution Control State, Interstate, and Tribal Program Support	231, 601	66.419	-	1,695,456
State Public Water System Supervision	232	66.432	-	622,198
WIIN Act - Testing for Lead in Drinking Water at Schools and Child Care Programs	244	66.444	-	42,183
Water Quality Management Planning	16284	66.454	-	23,629
Capitalization Grants for Clean Water State Revolving Funds	various	66.458	* 12,308,000	12,308,000
Nonpoint Source Implementation Grants	231, 9290	66.460	-	1,664,170
Capitalization Grants for Drinking Water State Revolving Funds	22207	66.468	* 12,153,872	12,153,872
Beach Monitoring and Notification Program	8291	66.472	-	339,498
Performance Partnership Grants	330	66.605	-	128,715
Environmental Information Exchange Network Grant Program and Related Assistance	570	66.608	-	70,000
Toxic Substances Compliance Monitoring Cooperative Agreements	243	66.701	-	4,845
Hazardous Waste Management State Program Support	230	66.801	-	561,853
Superfund State, Political Subdivision, and Indian Tribe Site- Specific Cooperative Agreements	394	66.802	-	171,950
Underground Storage Tanks Prevention, Detection and Compliance Program	339	66.804	-	242,767
Leaking Underground Storage Tank Trust Fund Corrective Action Program	258	66.805	-	281,786
State and Tribal Response Program Grants	360	66.817	-	574,898
Total Environmental Protection Agency Programs			<u>24,461,872</u>	<u>32,359,976</u>
Department of Education				
Direct Program--				
Special Education - Grants for Infants and Families	213	84.181A	15,314	19,539
Special Education - Grants for Infants and Families	269	84.181X	84,743	2,104,847
Subtotal Special Education - Grants for Infants and Families			* 100,057	2,124,386
Total Department of Education Programs			<u>100,057</u>	<u>2,124,386</u>

* Denotes Major Federal Program

The accompanying notes are an integral part of this schedule

Department of Health
State of Hawaii
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2022

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Project Number	Assistance Listing Number	Passed through to Subrecipients	Total Federal Expenditures
Department of Treasury				
Passed-through from the State of Hawaii--				
Coronavirus State Fiscal Recovery Fund	various	21.027	* \$ 36,270,411	\$ 46,834,564
Total Department of Treasury Programs			<u>36,270,411</u>	<u>46,834,564</u>
Department of Justice				
Direct Program--				
Hawaii Reentry Initiative	480	16.812	-	62,429
Total Department of Justice Programs			<u>-</u>	<u>62,429</u>
Department of Defense				
Direct Program--				
State Memorandum of Agreement Program for the Reimbursement of Technical Services	245	12.113	-	341,221
Total Department of Defense Programs			<u>-</u>	<u>341,221</u>
Department of Transportation				
Direct Program--				
Hazardous Materials Emergency Preparedness	641	20.703	-	73,431
Total Department of Transportation Programs			<u>-</u>	<u>73,431</u>
Total Expenditures of Federal Awards			<u>\$ 151,418,050</u>	<u>\$ 257,403,858</u>

* Denotes Major Federal Program

The accompanying notes are an integral part of this schedule

**Department of Health
State of Hawaii**

Notes to the Schedule of Expenditures of Federal Awards
Fiscal Year Ended June 30, 2022

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the State of Hawaii, Department of Health (the Department) under programs of the federal government for the fiscal year ended June 30, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Department, it is not intended to and does not present the financial position, change in net position, or cash flows of the Department.

2. Summary of Significant Accounting Policies

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

3. Loans Outstanding

The Department had the following loan balances outstanding at June 30, 2022. Loans made during the year are included in the federal expenditures presented in the schedule of expenditures of federal awards.

Program Title	ALN	Amount Outstanding
Capitalization Grants for Clean Water State Revolving Funds	66.458	\$ 37,958,848
Capitalization Grants for Drinking Water State Revolving Funds	66.468	\$ 34,475,064

4. Noncash Awards

The Department also receives noncash awards for the Immunization Cooperative Agreements Program. The Department expended approximately \$13,653,000 in vaccines for the Immunization Cooperative Agreements Program for the fiscal year ended June 30, 2022.

5. Indirect Cost Rate

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

PART II

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



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

Independent Auditor's Report

Office of the Auditor
State of Hawaii

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of Hawaii, Department of Health (Department), as of and for the fiscal year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated March 30, 2023.

Report on Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we considered to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2022-001 and 2022-002 that we considered to be significant deficiencies.

Report on Compliance and Other Matters

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

Department's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Department's response to the findings identified in our audit and described in the accompanying corrective action plan. The Department's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

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

KMH LLP

KMH LLP

Honolulu, Hawaii

March 30, 2023

PART III

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



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

Independent Auditor’s Report

Office of the Auditor
State of Hawaii

Report on Compliance for Each Major Federal Program

Qualified and Unmodified Opinions

We have audited the State of Hawaii, Department of Health’s (Department’s) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Department’s major federal programs for the fiscal year ended June 30, 2022. The Department’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Qualified Opinion on Major Federal Programs Identified in the Table Below

In our opinion, except for the noncompliance described in the Basis for Qualified and Unmodified Opinions section of our report, the Department complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the major federal programs identified in the table below for the year ended June 30, 2022.

Assistance Listing Number	Name of Federal Program
93.155	Rural Health Research Centers
93.243	Substance Abuse and Mental Health Services
93.958	Block Grants for Community Mental Health
93.982	Mental Health Disaster Assistance and Emergency Mental Health

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the Department complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2022.

Basis for Qualified and Unmodified Opinions

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor’s Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Department and to meet our ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified and unmodified opinions on compliance for each major federal program. Our audit does not provide a legal determination of the Department’s compliance with the compliance requirements referred to above.

Matters Giving Rise to Qualified Opinion on Major Federal Programs Identified in Table Below

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

Assistance Listing Number	Name of Federal Program	Compliance Requirement	Ref. No.
93.958	Block Grants for Community Mental Health	Reporting	2022-003
93.155	Rural Health Research Centers	Reporting	2022-006
93.982	Mental Health Disaster Assistance and Emergency Mental Health	Reporting	2022-007
93.243	Substance Abuse and Mental Health Services	Reporting	2022-008
93.243	Substance Abuse and Mental Health Services	Subrecipient Monitoring	2022-009

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

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Department's federal programs.

Auditor's Responsibility for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Department's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Department's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material non compliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Department's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Department's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

Government Auditing Standards requires the auditor perform limited procedures on the Department's response to the noncompliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. The Department's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2022-003 through 2022-04 and 2022-06 through 2022-009 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2022-005 to be a significant deficiency.

Our audit was not designed for the purposes of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinions is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on the Department's response to the internal control over compliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The Department's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

KMH LLP

KMH LLP

Honolulu, Hawaii
March 30, 2023

PART IV
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**Department of Health
State of Hawaii**

Schedule of Findings and Questioned Costs
June 30, 2022

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None reported

Type of auditor’s report issued on compliance for major federal programs: Unmodified for all major federal programs except for Block Grants for Community Mental Health Services, Rural Health Research Centers, Mental Health Disaster Assistance and Emergency Mental Health and Substance Abuse and Mental Health Services, which were qualified.

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

**Department of Health
State of Hawaii**

Schedule of Findings and Questioned Costs
June 30, 2022

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

Identification of major federal programs:

ALN Number	Name of Federal Program
Department of Health & Human Services	
Aging Cluster:	
93.044	Special Programs for Aging – Title III Part B – Grants for Supportive Services and Senior Centers
93.045	Special Programs for Aging – Title III Part C – Nutrition Services
93.053	Nutrition Services Incentive Program
93.136	Injury Prevention and Control Research and State and Community Based Programs
93.155	Rural Health Research Centers
93.243	Substance Abuse and Mental Health Services
93.268	Immunization Cooperative Agreements
Medicaid Cluster:	
93.777	State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare
93.778	Medical Assistance Program
93.870	Maternal, Infant and Early Childhood Home Visiting Grant Program
93.958	Block Grants for Community Mental Health Services
93.982	Mental Health Disaster Assistance and Emergency Mental Health
Department of Education	
84.181	Special Education – Grants for Infants and Families
Environmental Protection Agency	
66.458	Capitalization Grants for Clean Water State Revolving Funds
66.468	Capitalization Grants for Drinking Water State Revolving Funds
Department of Treasury	
21.027	Coronavirus State Fiscal Recovery Funds
Department of Agriculture	
10.557	Special Supplemental Nutrition Program for Woman, Infants and Children

**Department of Health
State of Hawaii**

Schedule of Findings and Questioned Costs
June 30, 2022

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

Dollar threshold used to distinguish between type A and type B programs:

\$3,000,000

Auditee qualified as low-risk auditee?

Yes No

**Department of Health
State of Hawaii**

Schedule of Findings and Questioned Costs
June 30, 2022

Section II – Financial Statement Findings

Finding No.: 2022-001 Reliance on Third Party Certifications

Type of Finding: Significant Deficiency

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

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

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

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

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

**Department of Health
State of Hawaii**

Schedule of Findings and Questioned Costs
June 30, 2022

Section II – Financial Statement Findings (continued)

Condition: The Deposit Beverage Container Program (Program) receives beverage container deposits and container fees from distributors and refunds deposits and pays handling fees to redemption centers based on certified information. The Program does not have procedures or processes in place to validate the information being provided by redemption centers and distributors and relies solely on their certifications.

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

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

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

Identification as a Repeat Finding, if applicable: See finding 2021-002 included in the Summary Schedule of Prior Audit Findings.

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

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

**Department of Health
State of Hawaii**

Schedule of Findings and Questioned Costs
June 30, 2022

Section II – Financial Statement Findings (continued)

Finding No.: 2022-002 Schedule of Expenditures of Federal Awards (SEFA) Preparation

Type of Finding: Significant Deficiency

Criteria: The Office of Management and Budget (OMB) issued Uniform Guidance, which requires nonfederal entities that expend \$750,000 or more in federal awards a year to have a Single Audit conducted on its federal award programs and SEFA. 2 CFR 200.510(b) states "the auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee’s financial statements which must include the total Federal awards expended... At a minimum, the schedule must...(4) include the total amount provided to subrecipients from each Federal program..."

Condition: During the audit, we proposed and the Department recorded the following adjustment to increase the total amount provided to subrecipients originally provided for the following programs:

Assistance Listing No.	Program Name	Adjustment
93.958	Block Grants for Community Mental Health Services	1,075,180

Context: Due to the diversity and number of Federal programs, the Administrative Services Office (“ASO”) relies on program heads to properly identify and classify Federal expenditures and expenditures passed through to subrecipients. Program heads and personnel are required to submit total Federal expenditures and the portion of those Federal expenditures that are passed through to subrecipients to ASO for final financial reporting.

Cause: Incorrect amount in the SEFA was primarily caused by a lack of verification of final program expenditures passed through to subrecipients at the program level. In this instance, there was a lack of communication between program grant coordinators and program accountants due to turnover in personnel.

Effect: The lack of verification resulted in inaccurate expenditures passed through to subrecipients being reported in the SEFA.

**Department of Health
State of Hawaii**

Schedule of Findings and Questioned Costs
June 30, 2022

Section II – Financial Statement Findings (continued)

Identification as a Repeat Finding, if applicable: See finding 2021-003 included in the Summary Schedule of Prior Audit Findings.

Recommendation: We recommend that the Department be more diligent in following their process of compiling, verifying and reconciling the Schedule of Expenditures of Federal Awards, including the amounts reported as passed through to subrecipients.

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

**Department of Health
State of Hawaii**

Schedule of Findings and Questioned Costs
June 30, 2022

Section III – Federal Award Findings and Questioned Costs

Finding No.: 2022-003	Reporting
Federal Agency:	Department of Health and Human Services (DHHS)
Assistance Listing No.:	93.958
Requirement:	Reporting
Type of Finding:	Material Noncompliance and Material Weakness
Program:	Block Grants for Community Mental Health Services
Federal award no. and year:	1B09SM082596-01 10/01/19 – 09/30/21
	1B09SM083798-01 10/01/20 – 09/30/22
	1B09SM083952-01 03/15/21 – 03/14/23
	1B09SM085353-01 03/01/21 – 09/30/25
	1B09SM085881-01 09/01/21 – 09/30/25

Criteria: 2 CFR Section 200.327 states that "(financial) information must be collected with the frequency required by the terms and conditions of the Federal award, but no less frequently than annually nor more frequently than quarterly except in unusual circumstances." Under this reporting requirement, the program must submit a Federal Financial Report (FFR) within 90 days after the close of the statutory grant period.

Under 2 CFR Appendix A to Part 170, recipients (i.e., direct recipients) of grants or cooperative agreements are required to report first-tier subawards of \$30,000 or more to the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS).

Condition: We noted one FFR was not timely submitted and the program did not report first-tier subawards of \$30,000 or more to FSRS.

Context: The program was required to submit one FFR during FY2022. During the audit, we noted that the FFR was submitted 133 days after the close of the statutory grant period.

**Department of Health
State of Hawaii**

Schedule of Findings and Questioned Costs
June 30, 2022

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

During the audit, we were also informed by Department personnel that required information on first-tier subawards of \$30,000 or more were not reported to FSRS, a requirement that is included in the programs notice of awards. The following table summarizes our findings:

Transactions Tested	Subaward not Reported	Report not Timely	Subaward Amount Incorrect	Subaward Missing Key Elements
5	5	5	-	-
Dollar Amount of Tested Transactions	Subaward not Reported	Report not Timely	Subaward Amount Incorrect	Subaward Missing Key Elements
\$2,881,495	\$2,881,495	\$2,881,495	-	-

We tested all first-tier subawards that amounted to \$30,000 or more during FY2022.

Cause: Based on further inquiry with Department personnel, we noted that the delay in submitting the FFR and failure to report first-tier subawards to FSRS was caused by a lack of personnel available to monitor reporting requirements and complete reporting requirements timely.

Effect: Failure to timely submit reports and report first-tier subawards of \$30,000 or more to FSRS results in noncompliance with the reporting requirement.

Questioned Costs: None

Identification as a Repeat Finding, if applicable: See finding 2021-004 included in the Summary Schedule of Prior Audit Findings.

Recommendation: We recommend program management be more diligent in following Federal deadlines in order to ensure compliance with Federal requirements. We also recommend program management be more diligent in understanding all requirements of grant agreements to ensure compliance with Federal requirements.

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

**Department of Health
State of Hawaii**

Schedule of Findings and Questioned Costs
June 30, 2022

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

Finding No.:	2022-004		Monitoring Procedures and Risk Assessment Process
Federal Agency:			Department of Health and Human Services (DHHS)
Assistance Listing No.:			93.958
Requirement:			Subrecipient Monitoring
Type of Finding:			Material Weakness
Program:			Block Grants for Community Mental Health Services
Federal award no. and year:	1B09SM082596-01	10/01/19 – 09/30/21	
	1B09SM083798-01	10/01/20 – 09/30/22	
	1B09SM083952-01	03/15/21 – 03/14/23	
	1B09SM085353-01	03/01/21 – 09/30/25	
	1B09SM085881-01	09/01/21 – 09/30/25	

Criteria: In accordance with 2 CFR section 200.331, all pass-through entities must monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved. In addition, all pass-through entities must evaluate each subrecipient’s risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring.

Condition: Although the program did not have any subrecipients that required a single audit report to be obtained during the fiscal year, we were informed by program personnel that the program was unable to fill vacant positions that would monitor this compliance requirement. As a result, the control over this compliance requirement was not in place during the current fiscal year.

Context: The program had six subrecipients in FY2022, none of which expended more than \$750,000 during the year. However, the program did not have any personnel monitoring subrecipient expenditures and reviewing single audit reports as applicable.

Cause: According to management, the program did not have sufficient staff available who are qualified to conduct subrecipient monitoring.

Effect: Failure to properly monitor subrecipients could lead to noncompliance with the subrecipient monitoring requirement.

Questioned Costs: None

**Department of Health
State of Hawaii**

Schedule of Findings and Questioned Costs
June 30, 2022

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

Identification as a Repeat Finding, if applicable: See finding 2021-005 included in the Summary Schedule of Prior Audit Findings.

Recommendation: We recommend the Department hire adequate staff resources to follow its procedures and internal controls to ensure compliance with Federal requirements.

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

**Department of Health
State of Hawaii**

Schedule of Findings and Questioned Costs
June 30, 2022

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

Finding No.: 2022-005	Cash Management	
Federal Agency:	Department of Agriculture	
Assistance Listing No.:	10.557	
Requirement:	Cash Management	
Type of Finding:	Significant Deficiency	
Program:	Special Supplemental Nutrition Program for Woman, Infants, and Children	
Federal award no. and year:	7HI700HI7	10/01/2020 – 09/30/2021
		10/01/2021 – 09/30/2022
	7HI700HI1	10/01/2019 – 09/30/2021
		10/01/2020 – 09/30/2022

Criteria: The federal award program noted above is not subject to the Treasury-State Cash Management Improvement Act agreement and, as such, is subject to 2 CFR 200.305(b), which states:

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

The State of Hawaii, Department of Budget and Finance has determined that the “*Administratively feasible time period*” was 21 calendar days.

Condition: During the testing of the Department’s cash management procedures, it was determined that three out of sixty payments tested were not distributed within 21 days of the draw down of funds. For the items tested, the time elapsed between draw down and payment ranged to 22 to 27 days.

Context: During the fiscal year ended June 30, 2022, the Department expended \$8,398,791 (excluding food expenditures).

Cause: The Department draws down federal funds that it estimates will be needed based on the expenditures that must be paid. However, since deposits must be posted prior to the processing of payments or disbursing of the funds, it is difficult for the Department to disburse federal funds in accordance with 2 CFR 200.305 (b). Also, the State’s payment process requires all State departments to process payments through DAGS resulting in processing delays.

**Department of Health
State of Hawaii**

Schedule of Findings and Questioned Costs
June 30, 2022

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

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

Questioned Costs: None

Identification as a Repeat Finding, if applicable: See finding 2021-006 included in the Summary Schedule of Prior Audit Findings.

Recommendation: We recommend that the Department work with DAGS and the Department of Budget and Finance to ensure compliance with established standard and timely disbursement of federal funds in accordance with 2 CFR 200.305(b).

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

**Department of Health
State of Hawaii**

Schedule of Findings and Questioned Costs
June 30, 2022

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

Finding No.: 2022-006 **Reporting**
Federal Agency: Department of Health and Human Services (DHHS)
Assistance Listing No.: 93.155
Requirement: Reporting
Type of Finding: Material Noncompliance and Material Weakness
Program: Rural Health Research Centers
Federal award no. and year: 1 H3LRH42223-01-00 07/01/21 – 12/31/22

Criteria: Under 2 CFR Appendix A to Part 170, recipients (i.e., direct recipients) of grants or cooperative agreements are required to report first-tier subawards of \$30,000 or more to the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS).

Condition: We noted the program did not report first-tier subawards of \$30,000 or more to FSRS.

Context: During the audit, we were informed by Department personnel that required information on first-tier subawards of \$30,000 or more were not reported to FSRS, a requirement that is included in the programs notice of awards. The following table summarizes our findings:

Transactions Tested	Subaward not Reported	Report not Timely	Subaward Amount Incorrect	Subaward Missing Key Elements
10	10	10	-	-
Dollar Amount of Tested Transactions	Subaward not Reported	Report not Timely	Subaward Amount Incorrect	Subaward Missing Key Elements
\$2,583,760	\$2,583,760	\$2,583,760	-	-

We tested all first-tier subawards that amounted to \$30,000 or more during FY2022.

Cause: Based on further inquiry with Department personnel, we noted that the failure to report first-tier subawards to FSRS was caused by a lack of awareness of the FSRS reporting requirement.

Effect: Failure to report first-tier subawards of \$30,000 or more to FSRS results in noncompliance with the reporting requirement.

**Department of Health
State of Hawaii**

Schedule of Findings and Questioned Costs
June 30, 2022

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

Questioned Costs: None

Identification as a Repeat Finding, if applicable: Not applicable

Recommendation: We recommend program management be more diligent in understanding all requirements of grant agreements to ensure compliance with Federal requirements.

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

**Department of Health
State of Hawaii**

Schedule of Findings and Questioned Costs
June 30, 2022

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

Finding No.: 2022-007	Reporting
Federal Agency:	Department of Health and Human Services (DHHS)
Assistance Listing No.:	93.982
Requirement:	Reporting
Type of Finding:	Material Noncompliance and Material Weakness
Program:	Mental Health Disaster Assistance and Emergency Mental Health
Federal award no. and year:	1H79FG000623-01 09/30/20 – 09/29/21

Criteria: 2 CFR Section 200.327 states that "(financial) information must be collected with the frequency required by the terms and conditions of the Federal award, but no less frequently than annually nor more frequently than quarterly except in unusual circumstances." Under this reporting requirement, the program must submit a Federal Financial Report (FFR) within 90 days after the close of the statutory grant period.

Under 2 CFR Appendix A to Part 170, recipients (i.e., direct recipients) of grants or cooperative agreements are required to report first-tier subawards of \$30,000 or more to the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS).

Condition: We noted one FFR was not timely submitted and the program did not report first-tier subawards of \$30,000 or more to FSRS.

Context: The program was required to submit one FFR during FY2022. During the audit, we noted that the FFR was submitted 126 days after the close of the statutory grant period.

**Department of Health
State of Hawaii**

Schedule of Findings and Questioned Costs
June 30, 2022

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

During the audit, we were also informed by Department personnel that required information on first-tier subawards of \$30,000 or more were not reported to FSRS, a requirement that is included in the programs notice of awards. The following table summarizes our findings:

Transactions Tested	Subaward not Reported	Report not Timely	Subaward Amount Incorrect	Subaward Missing Key Elements
13	13	13	-	-
Dollar Amount of Tested Transactions	Subaward not Reported	Report not Timely	Subaward Amount Incorrect	Subaward Missing Key Elements
\$1,665,900	\$1,665,900	\$1,665,900	-	-

We tested all first-tier subawards that amounted to \$30,000 or more during FY2022.

Cause: Based on further inquiry with Department personnel, we noted that the delay in submitting the FFR was caused by a lack of communication between ASO and program management. We further noted that the failure to report first-tier subawards to FSRS was caused by a lack of awareness of the FSRS reporting requirement.

Effect: Failure to timely submit reports and report first-tier subawards of \$30,000 or more to FSRS results in noncompliance with the reporting requirement.

Questioned Costs: None

Identification as a Repeat Finding, if applicable: Not applicable

Recommendation: We recommend program management be more diligent in following Federal deadlines in order to ensure compliance with Federal requirements. We also recommend program management be more diligent in understanding all requirements of grant agreements to ensure compliance with Federal requirements.

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

**Department of Health
State of Hawaii**

Schedule of Findings and Questioned Costs
June 30, 2022

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

Finding No.: 2022-008	Reporting	
Federal Agency:	Department of Health and Human Services (DHHS)	
Assistance Listing No.:	93.243	
Requirement:	Reporting	
Type of Finding:	Material Noncompliance and Material Weakness	
Program:	Substance Abuse and Mental Health Services	
Federal award no. and year:	5H79SP081001-03	09/30/20 – 09/29/21
	5H79SP081001-04	09/30/21 – 09/29/22
	5H79TI026663-05	09/30/20 – 09/29/21
	5H79TI080196-04	09/30/20 – 09/29/21

Criteria: Under 2 CFR Appendix A to Part 170, recipients (i.e., direct recipients) of grants or cooperative agreements are required to report first-tier subawards of \$30,000 or more to the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS).

Condition: We noted the program did not report first-tier subawards of \$30,000 or more to FSRS.

Context: During the audit, we were also informed by Department personnel that required information on first-tier subawards of \$30,000 or more were not reported to FSRS, a requirement that is included in the programs notice of awards. The following table summarizes our findings:

Transactions Tested	Subaward not Reported	Report not Timely	Subaward Amount Incorrect	Subaward Missing Key Elements
21	21	21	-	-
Dollar Amount of Tested Transactions	Subaward not Reported	Report not Timely	Subaward Amount Incorrect	Subaward Missing Key Elements
\$2,561,796	\$2,561,796	\$2,561,796	-	-

We tested all first-tier subawards that amounted to \$30,000 or more during FY2022.

Cause: Based on further inquiry with Department personnel, we noted that the failure to report first-tier subawards to FSRS was caused by a lack of awareness of the FSRS reporting requirement.

**Department of Health
State of Hawaii**

Schedule of Findings and Questioned Costs
June 30, 2022

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

Effect: Failure to report first-tier subawards of \$30,000 or more to FSRS results in noncompliance with the reporting requirement.

Questioned Costs: None

Identification as a Repeat Finding, if applicable: Not applicable

Recommendation: We recommend program management be more diligent in following Federal grant agreements in order to ensure compliance with Federal requirements. We also recommend program management be more diligent in understanding all requirements of grant agreements to ensure compliance with Federal requirements.

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

**Department of Health
State of Hawaii**

Schedule of Findings and Questioned Costs
June 30, 2022

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

Finding No.: 2022-009	Subrecipient Monitoring	
Federal Agency:	Department of Health and Human Services (DHHS)	
Assistance Listing No.:	93.243	
Requirement:	Subrecipient Monitoring	
Type of Finding:	Material Noncompliance and Material Weakness	
Program:	Substance Abuse and Mental Health Services	
Federal award no. and year:	5H79SP081001-03	09/30/20 – 09/29/21
	5H79SP081001-04	09/30/21 – 09/29/22
	5H79TI026663-05	09/30/20 – 09/29/21
	5H79TI080196-04	09/30/20 – 09/29/21

Criteria: In accordance with 2 CFR section 200.331, all pass-through entities must monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved. In addition, all pass-through entities must evaluate each subrecipient’s risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring.

Condition: The program did not comply with its documented monitoring procedures consistently.

Context: Of a total 19 contracts, we selected three contracts based on a non-statistical sample. We noted that for one of the three contracts selected, the required monitoring procedures were not performed based on the program’s documented procedures.

Cause: There was a lack of diligence in following documented monitoring procedures.

Effect: Failure to follow a subrecipient monitoring policy that meets the requirements in 2 CFR section 200.331 results in noncompliance with the subrecipient monitoring requirement.

Questioned Costs: None

Identification as a Repeat Finding, if applicable: Not applicable

Recommendation: We recommend that management follow its documented monitoring procedures for all subrecipient contracts.

**Department of Health
State of Hawaii**

Schedule of Findings and Questioned Costs
June 30, 2022

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

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

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Department of Health
State of Hawaii

Summary Schedule of Prior Audit Findings
June 30, 2022

STATUS REPORT

This section contains the current status of prior audit recommendations. The recommendations are referenced to the pages of the previous audit report for the fiscal year ended June 30, 2021, dated March 16, 2022.

Recommendations

Status

Part II – Financial Statement Findings

2021-001 Tobacco Settlement Accrual

We recommend that management perform a more diligent review of its accrual and work with the program to determine the accuracy of the accruals.

Management placed an emphasis on completing timely distribution of the funds in the fiscal year the revenue is received.

This finding is no longer applicable.

2021-002 Reliance on Third Party Certifications

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

In February 2021, the Office of Solid Waste Management (OSWM) filled its vacant Deposit Container Beverage (DBC) lead inspector position and in March 2022 OSWM filled one of its remaining two vacant DBC inspector positions. OSWM is also currently recruiting to fill the other vacant DBC inspector position.

In July 2021, OSWM increased the frequency of inventory inspections at redemption centers to document and track the type and amount of deposit beverage containers collected and stored by the redemption centers. What was once an annual inspection is now performed at every redemption center on a quarterly basis.

Department of Health
State of Hawaii

Summary Schedule of Prior Audit Findings
June 30, 2022

Recommendations

Status

Part II – Financial Statement Findings (continued)

2021-002 Reliance on Third Party Certifications (continued)

Inventories documented by OSWM inspectors are then cross-referenced by OSWM accountants to verify redemptions reported by the redemption centers. OSWM accountants also perform reconciliations between reported redemptions and documented weighted tickets from independent end users to provide a certain level of assurance about the accuracy of the number of containers that are claimed.

OSWM has also revised its redemption center certification application to require that all redemption center applicants submit an operational plan that describes methods to ensure that all customer receipts correlate with collected deposit beverage containers to prevent fraud.

OSWM has drafted an RFP to review and analyze distributor reports selected on a risk-basis process.

Corrective action is ongoing. Refer to finding 2022-001.

2021-003 Schedule of Expenditures of Federal Awards (SEFA) Preparation

We recommend that the Department revisit their process in compiling and verifying the Schedule of Expenditures of Federal Awards, including the amounts reported as passed through to subrecipients.

A checklist will be used to verify that entities are correctly identified as subrecipients so that expenditures passed through to subrecipients are accurately reported in the SEFA.

Corrective action is ongoing. Refer to finding 2022-002

**Department of Health
State of Hawaii**

Summary Schedule of Prior Audit Findings
June 30, 2022

Recommendations

Status

Part III – Federal Award Findings and Questioned Costs

2021-004 ALN 93.958 Block Grants for Community Mental Health Services Reporting

We recommend program management be more diligent in following Federal deadlines in order to ensure compliance with Federal requirements..

AMHD has contracted with two accountants to assist with grant activities including preparation of FFRs. Notices of Award will also be reviewed to determine if they include any new reporting requirements.

Corrective action is ongoing. Refer to finding 2022-003.

2021-005 ALN 93.958 Block Grants for Community Mental Health Services Monitoring Procedures and Risk Assessment Process

We recommend the Department allocate adequate resources to follow its procedures and internal controls to ensure compliance with Federal requirements

AMHD has contracted with two accountants to assist with grant activities including monitoring of subrecipients. AMHD will send reminder letters to providers notifying them of submitting required reports. The contracted accountants will review and evaluate each single audit report and a checklist will be completed and submitted to the AMHD Administrator for final review and approval.

Corrective action is ongoing. Refer to finding 2022-004.

Department of Health
State of Hawaii

Summary Schedule of Prior Audit Findings
June 30, 2022

Recommendations

Status

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

2021-006 ALN 10.557 Special Supplemental Nutrition Program for Woman, Infants, and Children Cash Management

We recommend that the Department work with DAGS and B&F to ensure compliance with established standard and timely disbursement of federal funds in accordance with CMIA Agreement

The Department’s Woman, Infants and Children (WIC) revised its Standard Operating Procedure to ensure that there is adequate funding for disbursement, invoices are tracked from receipt to submission and timely request for draws which are reviewed by appropriate personnel.

Corrective action taken, but we noted through our testing that finding still applicable. Refer to finding 2022-005.

2021-007 ALN 93.136 Injury Prevention and Control Research and State and Community Based Programs Monitoring Procedures and Risk Assessment Process

We recommend the Department be more diligent in following its procedures and internal controls to ensure compliance with Federal requirements.

AMHD has contracted with two accountants to assist with grant activities including monitoring of subrecipients. AMHD will send reminder letters to providers notifying them of submitting required reports. The contracted accountants will review and evaluate each single audit report and a checklist will be completed and submitted to the AMHD Administrator for final review and approval

This finding is no longer applicable.

PART VI
CORRECTIVE ACTION PLAN

JOSH GREEN, M.D.
GOVERNOR OF HAWAII
KE KIA'AINA O KA MOKU'AINA 'O HAWAII



KENNETH S. FINK, MD, MGA, MPH
DIRECTOR OF HEALTH
KA LUNA HO'OKELE

STATE OF HAWAII
DEPARTMENT OF HEALTH
KA 'OIHANA OLAKINO
P. O. BOX 3378
HONOLULU, HI 96801-3378

In reply, please refer to:
File:

ASO-F/23-255

March 30, 2023

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

Subject: Response to Draft Report "Financial Audit of the Department of Health, State of Hawaii, for the Fiscal Year Ended June 30, 2022".

Dear Mr. Kondo:

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

We appreciate the opportunity to comment on the report.

Sincerely,

Kenneth S. Fink, MD, MGA, MPH
Director of Health

Attachment

State of Hawaii
 Department of Health
 Corrective Action Plan Updates for Findings and Recommendations
 For the State Fiscal Year Ended June 30, 2022

Page(s), Finding	Corrective Action Plans Updates, Status, Responding Official
<p>P97-98 2022-001</p>	<p><u>Reliance on Third Party Certifications</u></p> <ul style="list-style-type: none"> • The Deposit Beverage Container Program <p><u>Corrective Action Plan:</u></p> <p><u>Distributor Third Party Certifications:</u> Act 12, signed into law by Governor Ige on April 27, 2022, requires all Deposit Beverage Container (DBC) distributors to submit records that support their distribution reports, including receipts, shipping documents, and other relevant information. In addition, all DBC distributors are required to conduct independent, third-party audits of sales information on odd-number years. The Office of Solid Waste Management (OSWM) will be amending Hawaii Administrative Rules (HAR) 11-282 to implement Act 12, specifically with regards to defining the additional reporting requirements, prescribe appropriate submission methods, and outline potential penalties arising from noncompliance with Act 12. Per Hawaii Revised Statutes (HRS) §342G-122, an advisory committee must be convened for DOH to develop administrative rules that pertain to the DBC Program.</p> <p>Concurrently, OSWM has begun the process of updating its statewide Integrated Solid Waste Management (ISWM) plan. Updating the ISWM plan also requires convening an outside advisory group to provide guidance on addressing ten solid waste issues defined by OSWM. One of the solid waste issues that will be examined is OSWM's current recycling programs, including the DBC Program. OSWM will take advantage of having an advisory group in place for the ISWM plan update to also develop the administrative rules to implement Act 12.</p> <p><u>Redemption Center Third Party Certifications:</u> OSWM has increased the frequency (from annual to quarterly) of material inventory inspections it conducts at all redemption centers to document and track the volume of deposit beverage containers collected by the redemption centers. Inventories (i.e., bales of redeemed deposit beverage containers being held onsite prior to shipping, and their corresponding weights) are inspected and documented by DBC inspectors. This information is then reviewed by the DBC Program accountants to verify each redemption center's DR-1 redemption reimbursement requests. Material stored onsite, and material in transit but not yet processed by the end user, must reasonably match the redemption weights reported to the DBC Program in the DR-1 reports.</p> <p>In addition, the DBC Program accountants reconcile the weight of materials redeemed and reported in the DR-1 with weight tickets and shipping manifest documents generated by independent recycling facilities</p>

	<p>and provided as part of the redemption center's request for handling fee payments (HR-1 reports). Variances between what is reported in DR-1s and HR-1s are forwarded to DBC Program inspectors to follow up with the redemption center and determine if materials are still onsite but not yet shipped, if the materials are in transit but not yet received by an independent recycling facility, or if an escalation to enforcement actions is warranted.</p> <p><u>Implementation Date:</u> <u>Distributor Third Party Certifications:</u> The contract to update the ISWM plan was executed in late-October 2022, and OSWM is currently assembling the ISWM plan advisory group and preparing for the first solid waste issue topic discussion. The current estimate for evaluating the DBC Program and developing administrative rules is late-2023.</p> <p><u>Redemption Center Third Party Certifications:</u> The corrective actions described are currently being implemented</p> <p><u>Responding Official:</u> Michael Burke, Solid Waste Coordinator, Solid and Hazardous Waste Branch Office of Solid Waste Management</p>
<p>P99-100 2022-002</p>	<p><u>Schedule of Expenditures of Federal Awards (SEFA) Preparation</u></p> <ul style="list-style-type: none"> • 93.958 Block Grants for Community Mental Health Services <p><u>Corrective Action Plan:</u> CAMHD will enter all recipients on the SEFA form and identified an accountant to monitor spending on contracts exceeding \$750,000.</p> <p><u>Implementation Date:</u> April 1, 2023</p> <p><u>Responding Official:</u> Scott Shimabukuro, Acting Administrative Chief and Janet Ledoux, Administrative Officer/Child and Adolescent Mental Health Division</p>
<p>P101-102 2022-003</p>	<p><u>Reporting – FFR and FSRS</u></p> <ul style="list-style-type: none"> • 93.958 Block Grants for Community Mental Health Services <p><u>Corrective Action Plan:</u> AMHD plans on contracting with an accountant to assist with grant activities including preparation of FFRs. If FFRs will not be available to submit within 90 days after the close of the statutory grant period, a submission extension will be requested. AMHD's first-tier subawards of \$30,000 or more are being currently being reported to FSRS.</p> <p>CAMHD has one dedicated accountant to monitor each federal grant and will ensure that the FFR includes all 1st tier sub-awards and is submitted in a timely manner.</p>

	<p><u>Implementation Date:</u> AMHD - June 1, 2023 CAMHD - April 1, 2023</p> <p><u>Responding Official:</u> Amy Curtis, Administrative Chief and Amy Yamaguchi, Administrative Officer/Adult Mental health Division; Scott Shimabukuro, Acting Administrative Chief and Janet Ledoux, Administrative Officer/Children</p>
<p>P103-104 2022-004</p>	<p><u>Monitoring Procedures and Risk Assessment Process</u></p> <ul style="list-style-type: none"> • 93.958 Block Grants for Community Mental health Services <p><u>Corrective Action Plan:</u> CAMHD will have a dedicated accountant to any grant program above \$750,000 in contract reimbursements to over see the monitoring procedures and process.</p> <p><u>Implementation Date:</u> April 1, 2023</p> <p><u>Responding Official:</u> Scott Shimabukuro, Acting Administrative Chief and Janet Ledoux, Administrative Officer/Child and Adolescent Mental Health Division</p>
<p>P105-106 2022-005</p>	<p><u>Cash Management</u></p> <ul style="list-style-type: none"> • 10.557 Special Supplemental Nutrition Program for Woman, Infants, and Children (WIC) <p><u>Corrective Action Plan:</u> Upon being advised that the State of Hawaii Department of Budget and Finance determined that the “administratively feasible” time period of advance payments was 21 calendar days”, the WIC Accounting Section implemented the following changes to its Invoice payment process.</p> <ol style="list-style-type: none"> 1. The WIC invoice payment workflow tracking system was revised to also track the number of days from the ASAP draw date to the check process date on Data Mart. 2. The Accountant meets with the Account Clerk weekly on the invoice workflow system to review invoices in the workflow from receipt to when payment checks are processed. 3. Within two workdays from the date that the Accountant makes the ASAP draw and transfers federal funds to the State Treasury to pay for approved invoices, the Account Clerk prepares and “pouches” the invoices to ASO Pre-Audit. 4. If a payment check is not processed within 14 calendar days from the date an invoice is pouched to ASO Pre-Audit, the Account Clerk notifies the Accountant, and contacts ASO to verify that the invoice was received.

	<p>After implementation of the revised changes, WIC saw a significant improvement in the number of days it took DAGS to enter a check process date on Data Mart.</p> <p><u>Implementation Date:</u> July 1, 2022</p> <p><u>Responding Officials:</u> Melanie Murakami, Public Health Program Manager and Paul Uchima, WIC Services Administrative Officer/Family Health Services Division</p>
<p>P107-109 2022-06</p>	<p><u>Reporting - FSRS</u></p> <ul style="list-style-type: none"> • 93.155 SHIP COVID Testing and Mitigation <p><u>Corrective Action Plan:</u> Program management will take more care in understanding the requirements of grant agreements and seek out further instruction and training on reporting to the FSRS.</p> <p><u>Implementation Date:</u> Immediately</p> <p><u>Responding Officials:</u> William Aakhus, Administrative Officer/Family Health Services Division</p>
<p>P109-110 2022-007</p>	<p><u>Reporting - FFR and FSRS</u></p> <ul style="list-style-type: none"> • 93.982 Mental Health Disaster Assistance and Emergency Mental Health <p><u>Corrective Action Plan:</u> FSRS - start training staff on FFATA requirement and contractors during site visits. FFR – will review current procedures and continue to work with ASO and the SAMHSA Grants Management program to ensure FFR continues to be submitted early thru the PMS system.</p> <p><u>Implementation Date:</u> Immediately</p> <p><u>Responding Officials:</u> John Valera, Administrator and Melanie Muraoka, Administrative Officer/Alcohol and Drug Abuse Division</p>
<p>P111-112 2022-008</p>	<p><u>Reporting - FSRS</u></p> <ul style="list-style-type: none"> • 93.243 Substance Abuse and Mental Health Services <p><u>Corrective Action Plan:</u> Program has already started training staff on FFATA requirement and contractors during site visits.</p>

	<p><u>Implementation Date:</u> Immediately</p> <p><u>Responding Officials:</u> John Valera, Administrator and Melanie Muraoka, Administrative Officer/Alcohol and Drug Abuse Division</p>
<p>P113-114 2022-09</p>	<p><u>Subrecipient Monitoring</u></p> <ul style="list-style-type: none"> • 93.243 Substance Abuse and Mental Health Services <p><u>Corrective Action Plan:</u> All grant coordinator will be trained on current monitoring procedures and to keep good monitoring records. Grant and monitoring requirements will also be reviewed with contracted agencies as part of contract orientation.</p> <p><u>Implementation Date:</u> Contract orientations should be completed within first month of executed contract. Year 1 monitoring of contracted agencies to be completed within first year of contract period, and annually thereafter.</p> <p><u>Responding Officials:</u> John Valera, Administrator and Melanie Muraoka, Administrative Officer/Alcohol and Drug Abuse Division</p>