

State of Hawaii
Department of Health
Financial and Compliance Audit
June 30, 2006

Submitted by
The Auditor
State of Hawaii

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Department of Health
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CERTIFIED PUBLIC ACCOUNTANTS

Report of Independent Auditors

The Auditor
State of Hawaii

In our opinion, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of Hawaii, Department of Health (the "Department") which collectively comprise the Department's basic financial statements as listed in the index, present fairly, in all material respects, the respective financial position of the governmental activities; the business-type activities, each major fund, and the aggregate remaining fund information of the Department at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Department's management. Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1 to the basic financial statements, the basic financial statements of the Department are intended to present the financial position and the changes in financial position and cash flows, where applicable, of only that portion of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of Hawaii that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2006, and the changes in its financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 8 to the basic financial statements, the Department has restated its department-wide net assets and governmental funds fund balance at June 30, 2005 from the amounts previously reported on by other auditors. We have audited the adjustments described in Note 8 that were applied to restate the June 30, 2005 governmental activities net assets and governmental funds fund balance. In our opinion, such adjustments are appropriate and have been properly applied. As the prior period financial statements are not presented herein, the restatement has been effected as an adjustment to the July 1, 2005 department-wide net assets and governmental funds fund balance.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2007 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis and budgetary comparison information on pages 3 through 12 and 35 through 39 are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. As described in Note 1 to the Schedule of Expenditures of Federal Awards, the accompanying schedule of expenditures of federal awards was prepared on the cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion is fairly stated in all material respects on the basis of accounting described in Note 1, in relation to the basic financial statements taken as a whole.

Accounty LLP

Honolulu, Hawaii
March 28, 2007

State of Hawaii
Department of Health
Management's Discussion and Analysis (Unaudited)
June 30, 2006

This section of the State of Hawaii, Department of Health's (the "Department") annual financial report presents management's discussion and analysis of the Department's financial performance during the fiscal year that ended on June 30, 2006. Please read it in conjunction with the Department's financial statements, which follows this section.

Overview of the Financial Statements

This financial report consists of four (4) parts: this management's discussion and analysis, the basic financial statements including the related notes to the financial statements, other required supplementary information, and other information. These components are described below:

Basic Financial Statements

The basic financial statements include two kinds of statements that present different views of the Department:

- The first two statements are department-wide financial statements that provide information about the Department's overall financial position and results of operations. These statements, which are presented on an accrual basis of accounting, consist of the Statement of Net Assets and the Statement of Activities.
- The remaining statements are fund financial statements of the Department's governmental funds, for which activities are funded primarily from appropriations from the State of Hawaii, by revenues from the tobacco settlement agreement, beverage container deposit program and federal grants; the Department's proprietary funds, which consist of revolving loan funds and operate similar to business activities; and the Department's fiduciary funds. The governmental funds are presented on a modified accrual basis of accounting. The proprietary and the fiduciary funds are presented on an accrual basis of accounting.
- The basic financial statements also include a "Notes to Financial Statements" section that explains some of the information in the Department-Wide and the Fund financial statements and provides more detailed data.
- The "Notes to Financial Statements" are followed by Budgetary Comparison Schedules for the General Fund, Tobacco Settlement Fund, and Deposit Beverage Container Fund which are supplementary information required by the Governmental Accounting Standards Board.

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Department-Wide Financial Statements

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

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

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

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

Fund Financial Statements

The fund financial statements provide more detailed information about the Department's most significant funds and not the Department as a whole. 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 Department has three types of funds:

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

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

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

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the department-wide and fund financial statements. The notes to the financial statements follow the basic financial statements.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. This section includes a budgetary comparison schedule, which includes reconciliations for the general fund, tobacco settlement fund, and deposit beverage container fund, comparing the excess of revenues over expenditures presented on a budgetary basis to the excess (deficiency) of revenues over expenditures presented in conformity with GAAP as presented in the governmental fund financial statements. This management's discussion and analysis is also Required Supplementary Information that is required to be presented preceding the financial statements.

Financial Highlights

- The financial information for 2005 has been restated to reflect the reporting of \$1.4 million in additional Beverage Deposit Container special fund liabilities as of June 30, 2005. The 2005 amounts in the MD&A are the restated balances (see Note 8).
- The Department's total net assets increased from \$ 471.8 million as of June 30, 2005 to \$498.5 million as of June 30, 2006, which is approximately \$26.7 million. The total increase in net assets was attributed to an increase in the Department's business type activities of \$18.7 million and an increase in governmental activities of \$8.0 million during the year.
- The Department's governmental funds reported an aggregate increase in fund balance of \$12.2 million during the year and totaled \$126.0 million at June 30, 2006.

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- The Department's proprietary funds, consisting of two revolving loan funds, reported an increase in net assets of \$18.7 million for 2006. Total net assets were \$323.3 million at June 30, 2006.

Department-Wide Financial Analysis

This section includes condensed Department-wide financial information.

Statement of Net Assets
June 30,
(\$000)

	Governmental Activities		Business-Type Activities		Total	
	2006	2005 (restated)	2006	2005	2006	2005 (restated)
Current assets	\$ 229,608	\$ 195,316	\$ 182,060	\$ 156,427	\$ 411,303	\$ 351,468
Capital assets	68,792	72,120	302	213	69,094	72,333
Loans receivable, noncurrent	-	-	141,048	148,103	141,048	148,103
Total assets	\$ 298,400	\$ 267,436	\$ 323,410	\$ 304,743	\$ 621,445	\$ 571,904
Current liabilities	\$ 107,604	\$ 85,120	\$ 89	\$ 124	\$ 107,328	\$ 84,969
Long term liabilities	15,588	15,086	-	-	15,588	15,086
Total liabilities	123,192	100,206	89	124	122,916	100,055
Net assets						
Invested in capital assets	68,792	72,120	302	213	69,094	72,333
Restricted	113,666	87,820	323,019	304,406	436,685	392,226
Unrestricted	(7,250)	7,290	-	-	(7,250)	7,290
Total net assets	175,208	167,230	323,321	304,619	498,529	471,849
Total liabilities and net assets	\$ 298,400	\$ 267,436	\$ 323,410	\$ 304,743	\$ 621,445	\$ 571,904

As noted earlier, changes in net assets may serve over time as a useful indicator of the Department's financial position. As of June 30, 2006, the Department's total net assets were approximately \$498.5 million.

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At June 30, 2006, in addition to cash in the state treasury approximating \$366.1 million, the Department had total loan receivables from county governments in the amount of \$155.6 million arising from its two revolving loan funds. The Department had total liabilities of \$122.9 million at June 30, 2006 of which \$9.9 million relates to accrued wages and employee benefits payable. Approximately \$68.5 million in liabilities relate to vouchers and contracts payable. At June 30, 2006, restricted net assets were \$436.7 million. The restrictions arise from legal and contractual agreements.

Statement of Activities
June 30,
(\$000)

	Governmental Activities		Business-Type Activities		Total	
	2006	2005 (restated)	2006	2005	2006	2005 (restated)
Revenue						
Program revenues						
Charges for services	\$ 41,556	\$ 30,599	\$ 5,643	\$ 5,851	\$ 47,199	\$ 36,450
Operating grants and contributions	110,083	117,947	11,497	6,365	121,580	124,312
General revenues						
State appropriated funds	411,561	376,866	-	-	411,561	376,866
Nonimposed fringe benefits	44,722	35,931	-	-	44,722	35,931
Tobacco settlement funds	34,063	38,509	-	-	34,063	38,509
Environmental fees and taxes	24,365	17,472	-	-	24,365	17,472
Total revenues	<u>666,350</u>	<u>617,324</u>	<u>17,140</u>	<u>12,216</u>	<u>683,490</u>	<u>629,540</u>
Expenses						
General administration	29,953	28,250	-	-	29,953	28,250
Environmental health	59,487	45,029	2,152	2,182	61,639	47,211
Behavior health	244,245	229,218	-	-	244,245	229,218
Health resources	289,090	264,892	-	-	289,090	264,892
Total expenses	<u>622,775</u>	<u>567,389</u>	<u>2,152</u>	<u>2,182</u>	<u>624,927</u>	<u>569,571</u>
Excess before transfers	43,575	49,935	14,988	10,034	58,563	59,969
Transfers	(35,597)	(26,269)	3,714	3,697	(31,883)	(22,572)
Change in net assets	7,978	23,666	18,702	13,731	26,680	37,397
Net assets						
Beginning of year	<u>167,230</u>	<u>143,564</u>	<u>304,619</u>	<u>290,888</u>	<u>471,849</u>	<u>434,452</u>
End of year	<u>\$ 175,208</u>	<u>\$ 167,230</u>	<u>\$ 323,321</u>	<u>\$ 304,619</u>	<u>\$ 498,529</u>	<u>\$ 471,849</u>

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Governmental activities increased the Department's net assets by \$8.0 million. The increase was primarily due an \$8.3 million increase in the deposit beverage container fees. The deposit beverage container fee increase was due to an increase in deposit beverage sales, imports/and or number of deposit beverages manufactured in the State. Other contributing factors were the \$34.7 million increase in State appropriated funds and an increase in the Behavioral Health Resources increase in charges for services of \$9.4 million, which were offset by increased expenses for the Department.

Revenues of the Department's business-type activities were primarily from charges for services, program investment income and federal assistance program funds and state matching funds. Charges for services consist primarily of administration loan fees and interest income on loans related to the Department's two revolving loan programs. The majority of the program investment income is from income earned from participation in the State Treasury Investment Pool System.

For the fiscal year ending June 30, 2006, business-type activities increased the Department's net assets by \$15.0 million before transfers. Key elements of this change are as follows:

- An increase in operating grants and contributions of \$5.1 million.
- The Department earned \$3.7 million and \$2.0 from interest income and loan fees from its outstanding loans, respectively.
- The Department earned \$5.6 million from interest income on investments.

Total Department-wide expenses for 2006 were \$ 617.4 million of which \$ 615.3 million was for governmental activities. Overall the Department is organized into four major administrations.

Financially, the largest administration is the Health Resources Administration that expended approximately 46% of all expenses. The expenditures for this Administration increased \$24.2 million in fiscal year 2006 from fiscal year 2005. A major program accounted for in this administration is the Healthy Hawaii Initiative. This program seeks to prevent chronic diseases such as heart disease, cancer and diabetes utilizing tobacco settlement funds for programs that work to decrease tobacco use, improve nutrition and promote physical activities. Other significant programs include the Disease Outbreak Control Division which utilizes state and federal bioterrorism funds for emergency response to disease outbreaks, and the Injury Prevention and Control Program that includes the state's mandated Emergency Medical Services funds. The Family Health Services Division that administers the state's Healthy Start and Early Intervention programs for children and the Community Health Division that provides Public Health Nursing Services continue to provide services necessary to meet the requirements of the settled Felix lawsuit. The Developmental Disabilities Division that services the disabled clients in the state is also addressing the conditions of the Makin Settlement. This administration provides a wide array of public health services in addition to meeting the court settlement conditions, which results in the expenditure of a high percentage of departmental funds. In addition, the increase in expenditures is due to a change in the accounting procedures for the Developmental Disabilities Division Title XIX Waiver Home & Community Based Services Program. In fiscal year 2006, there was an establishment of a U fund account to track the Department of Human Service's (DHS) portion of the total expenditures for the Title XIX HCBS Program which is established at 58%. Prior to this, we would only track 48% of the total expenditures related to the department.

The Behavioral Health Services Administration expended a significant 39% of departmental funds, an increase of \$15.0 million from fiscal year 2005. This administration is responsible to provide available and coordinated mental health and substance abuse treatment and prevention programs. Programs within this administration are the Adult Mental Health Division ("AMHD") that includes the Hawaii State Hospital

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and Community Mental Health Plan, the Child and Adolescent Mental Health Division ("CAMHD"), and Alcohol and Drug Abuse Division ("ADAD"). A portion of the increase in expenditures is attributed to the Adult Mental Health Division's continuing efforts to identify, place and treat eligible clients. AMHD's Access Line continues to provide the community with a resource site for information as well as a referral point for possible clients. CAMHD responds to the on-going requirements of the settled Felix case, and ADAD responds to the Administration's Ice (drug) initiative and the expenditure of the additional funds appropriated.

The Environmental Health Administration is responsible for the management of the clean air, clean water, solid and hazardous waste, public sanitation, vector control, and purity of food and drugs. It expended approximately 10% of the departmental funds, an increase of \$14.4 million from fiscal year 2005. This increase in expenditures is mainly due to the increase the public's acceptance and participation of the Beverage Container Deposit Program. This program continues to expand every year with increasing amounts being recycled which causes other related costs to increase. The programs are heavily federally funded through the Environmental Protection Agency. This administration also manages the Water Pollution Control Revolving Fund and the Drinking Water Treatment Revolving Fund.

Finally, the fourth Administration within the Department is the General Administration unit. It provides the overall leadership, administrative support units, and oversight to the three district health offices and to the five administratively attached agencies to the DOH. This administration expends approximately 5% of the departmental funds.

The significant changes in our financial statements from 2005 to 2006 are generally attributable to the requirements of the mandated court settlements and other non-discretionary items. Of significance are the additional revenues and expenditures for the Adult Mental Health and Hawaii State Hospital programs which successfully exited the last portion of the U.S. Department of Justice lawsuit effective November 30, 2006. The Developmental Disabilities Division continues its efforts to meet the requirements of the Makin Settlement to take more clients into their program, and the Children with Special Health Needs program expenditures address the needs of the Early Intervention Program tied to the Felix Settlement. It is noted that the Child and Adolescents Mental Health Division has stabilized its Felix client counts and reassigned autistic children to the Developmental Disabilities Division and to the Department of Education which have resulted in a significant reduction in this program's expenditures. The Felix Settlement ended in May 2005; however the programs continue to provide all required services.

The other significant increases in expenditures are due to the Alcohol and Drug Abuse Program's increased level of activities to implement the Administration's priority Ice (drug) program, and the Epidemiology program's growth due to federal Bioterrorism program funds.

Significant reductions in funding levels are being experienced by the Tobacco Settlement Special Fund due to the reduced revenue received from tobacco companies under the Master Settlement Agreement and general funds reduced from the Healthy Start program being converted to Tobacco Settlement funds. The shortfall in revenues collected by the Tobacco Settlement is due to the complex formula of payment adjustments, reductions and offsets that are part of the master settlement agreement between the tobacco manufacturers and the state Attorney Generals.

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The following table presents revenues and expenditures of the governmental funds for 2006 and 2005 (\$000):

	2006	2005 (restated)
Revenues		
State general fund allotments	\$ 411,561	\$ 376,866
Nonimposed fringe benefits	44,722	35,931
Tobacco settlement funds	34,863	38,009
Deposit beverage container program	21,868	13,556
Intergovernmental	104,070	114,333
Taxes, fees, fines and other	46,547	36,120
Investment income	3,992	2,226
Total revenues	667,623	617,041
Expenditures		
General administration	28,933	27,422
Environmental health	58,550	43,140
Behavioral health	242,232	226,553
Health resources	301,319	264,133
Total expenditures	631,034	561,248
Excess revenues over expenditures before transfers	\$ 36,589	\$ 55,793

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

During the fiscal year ended June 30, 2006 general fund revenues were \$437.8 million, including \$44.7 million for fringe benefits paid directly from the State General Fund. General fund expenditures were \$444.8 million, including the \$44.7 million discussed above.

For 2006, the tobacco settlement fund received revenues of \$35.7 million, including investment income of \$0.9 million. \$20.5 million was transferred to other State departments and agencies of which \$8.0 million was for the State's rainy day fund, and \$9.1 million was for the University of Hawaii to assist in financing the construction of the new medical school facility in Kakaako.

In the current year, the bottle bill fund collected \$21.9 million in beverage container deposit administrative fees. Of this amount received, \$18.6 million was paid out to consumers, recycling centers, or utilized to fund the program. The increased activity in 2006 is attributable to the program becoming fully operation on January 1, 2005. Therefore, there was a full year of activity in 2006 compared to only half a year in 2005.

The proprietary funds consist of two funds: Water Pollution Control Revolving Fund and Drinking Water Treatment Revolving Loan Fund and are reported in the statement of net assets and statement of activities as business-type activities.

The Water Pollution Revolving Fund accounts for federal and state funds used to provide loans to county governments for the construction of wastewater treatment facilities and the repayment of principal, interest and fees from such loans and investment of such moneys. During 2006, this fund received

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\$1.9 million and \$2.1 million of federal and state funds, respectively. The fund also disbursed \$3.6 million in loan proceeds and collected repayments of principal of \$11.4 million.

The Drinking Water Treatment Revolving Loan Fund 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 moneys. During 2006, this fund received \$4.1 million and \$1.7 million of federal and state funds, respectively.

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

Budgetary Analysis

The following budget information relates to the general fund and tobacco settlement fund for 2006.

	Budgeted Amounts (\$000)		Actual on a Budgetary Basis (\$000)
	Original	Final	
General fund			
Revenues	\$ 395,661	\$ 399,262	\$ 398,492
Expenditures			
General administration	16,940	17,580	17,513
Environmental health	17,536	17,905	17,795
Behavioral health	182,087	183,607	183,399
Health resources	179,098	180,170	179,785
Tobacco settlement fund			
Revenues	43,143	43,160	35,438
Expenditures	43,143	43,160	27,992
Deposit beverage container fund			
Revenues	53,100	53,106	55,471
Expenditures	53,100	53,106	52,478

The differences between the original budget and final expenditures for the general fund were primarily due to the delay in hiring on vacant positions of many programs throughout the department. Other differences occurred due to contracts being delayed, and lower than expected caseloads for services. The actual expenditures of the general fund were \$0.8 million less than the budgeted expenditures.

For the Tobacco Settlement Program, the amount expended on a budgetary basis, \$28.0 million was \$7.4 million less than the actual revenues received. This was primarily due to the transfer of \$4.0 million to the Tobacco Trust Fund in fiscal year 2007 and \$3.2 million credited to the Department of Human Services, but not yet transferred.

The Deposit beverage container program was fully implemented in January 2005 with the public's redemption of empty containers. It received revenues from the program's administrative fees of \$21.9 million, \$8.3 million more than in 2005 due to the significant increase in the number of deposit beverage containers actually sold. In fiscal year 2005, 433,375,007 containers were sold, this amount rose to 930,353,658 in fiscal year 2006.

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Capital Assets

As of June 30, 2006, the Department's governmental activities had invested approximately \$68.8 million (net of accumulated depreciation) in a broad range of capital assets. This amount represents a decrease of about \$3.3 million. The decrease is primarily related to depreciation expense which approximated \$5.6 million, offset by the \$2.4 million in additions purchased in the current year. See Note 3 to the Department's financial statements for a description of capital assets activities for the fiscal year ended June 30, 2006.

Capital Assets Governmental Activities June 30, (\$000)		
	2006	2005
Land	\$ 1,018	\$ 1,018
Land and building improvements	134,031	134,031
Furniture and equipment	<u>16,239</u>	<u>14,579</u>
Total	151,288	149,628
Accumulated depreciation	<u>82,496</u>	<u>77,508</u>
Total capital assets, net	<u>\$ 68,792</u>	<u>\$ 72,120</u>

Currently Known Facts, Decisions, or Conditions

The Department will continue to place its efforts on the mental health, emergency preparedness and substance abuse health priorities of the state. The Disease Outbreak and Control Division and the Disaster Planning Staff continue to lead a Department-wide effort to prepare for potential disease outbreaks, natural disasters and other public health emergencies. The Department will go on with its work on the Basic Disaster Plan and its implementation throughout the upcoming year.

The Adult Mental Health Division continues to work diligently on the requirements of the Community Plan for out-patients which has resulted in the dismissal of the U.S. Department of Justice's oversight of this Plan effective November 30, 2006. In line with maintaining and improving our mental health services are our priority efforts to advance the administration's substance abuse (ice, alcohol, and drug) initiative. Similar high level efforts will continue to address the court mandates of the Makin Settlement requiring services for the developmentally disabled. Ongoing efforts will continue to meet the needs of the now settled Felix Consent Decree for children and youth with special needs. Significant financial resources will continue to be expended in these areas to meet the required objectives.

The Water Pollution Control Revolving Fund and the Drinking Water Treatment Revolving Loan Fund expect to execute a total of 15 loan agreements in the amount of \$130.6 million and 9 loan agreements for \$23.9 million respectively during fiscal year 2007.

State of Hawaii
Department of Health
Statement of Net Assets
June 30, 2006

	Governmental Activities	Business-Type Activities	Total
Assets			
Current assets			
Equity in cash and cash equivalents in State Treasury	\$ 204,253,927	\$ 161,846,987	\$ 366,100,914
Receivables			
Accrued interest and loan fees	1,061,227	3,192,382	4,253,609
Accounts receivable	1,717,511	5,574	1,723,085
Due from Federal government	4,675,235	2,053,460	6,728,695
Internal balances	-	365,000	-
Tobacco settlement receivable	17,900,000	-	17,900,000
Current maturities of loans receivable	-	14,596,217	14,596,217
	<u>25,353,973</u>	<u>20,212,633</u>	<u>45,201,606</u>
Total current assets	229,607,900	182,059,620	411,302,520
Loans receivable, net of current maturities	-	141,048,285	141,048,285
Capital assets, net of accumulated depreciation	68,791,606	302,539	69,094,145
Total assets	<u>\$ 298,399,506</u>	<u>\$ 323,410,444</u>	<u>\$ 621,444,950</u>
Liabilities and Net Assets			
Current liabilities			
Vouchers and contracts payable	\$ 68,442,866	\$ 18,031	\$ 68,460,897
Accrued wages and employee benefits payable	9,862,498	71,468	9,933,966
Accrued vacation, current portion	7,912,528	-	7,912,528
Workers' compensation liability	535,996	-	535,996
Deferred income	578,654	-	578,654
Internal balances	365,000	-	-
Due to State of Hawaii	11,224,300	-	11,224,300
Beverage container deposits	8,682,455	-	8,682,455
Total current liabilities	<u>107,604,297</u>	<u>89,499</u>	<u>107,328,796</u>
Accrued vacation, net of current portion	15,587,703	-	15,587,703
Commitments and contingencies			
Net Assets (Deficit)			
Investment in capital assets	68,791,606	302,539	69,094,145
Restricted for			
Loans	-	323,018,406	323,018,406
Tobacco prevention and control	28,241,431	-	28,241,431
Capital projects	14,538,293	-	14,538,293
Other purposes	70,886,616	-	70,886,616
Unrestricted deficit	<u>(7,250,440)</u>	<u>-</u>	<u>(7,250,440)</u>
Total net assets	<u>175,207,506</u>	<u>323,320,945</u>	<u>498,528,451</u>
Total liabilities and net assets	<u>\$ 298,399,506</u>	<u>\$ 323,410,444</u>	<u>\$ 621,444,950</u>

The accompanying notes are an integral part of this statement.

**State of Hawaii
Department of Health
Statement of Activities
Year Ended June 30, 2006**

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government		
				Governmental Activities	Business-Type Activities	Total
Primary government						
Governmental activities						
General administration	\$ 29,952,736	\$ 289,444	\$ 8,318,706	\$ (21,344,586)	\$ -	\$ (21,344,586)
Environmental health administration	59,487,236	6,080,221	10,769,388	(42,637,627)	-	(42,637,627)
Behavioral health services administration	244,245,033	28,288,878	13,362,641	(202,593,514)	-	(202,593,514)
Health resources administration	289,090,856	6,897,655	77,632,050	(204,561,151)	-	(204,561,151)
Total governmental activities	622,775,861	41,556,198	110,082,785	(471,136,878)	-	(471,136,878)
Business-type activities						
Environment health loan programs	2,151,648	5,642,915	11,496,759	-	14,988,026	14,988,026
Total business-type activities	2,151,648	5,642,915	11,496,759	-	14,988,026	14,988,026
Total primary government	\$ 624,927,509	\$ 47,199,113	\$ 121,579,544	(471,136,878)	14,988,026	(456,148,852)
General revenues						
State general fund allotments				411,560,593	-	411,560,593
Nonimposed employee fringe benefits				44,722,012	-	44,722,012
Environmental response tax				1,807,921	-	1,807,921
Deposit beverage container fee				21,868,068	-	21,868,068
Advance glass disposal fee				688,865	-	688,865
Tobacco settlement funds				34,063,445	-	34,063,445
Transfers				(35,597,265)	3,714,000	(31,883,265)
Total general revenues and transfers				479,113,639	3,714,000	482,827,639
Change in net assets				7,976,761	18,702,026	26,678,787
Net assets at July 1, 2005, as previously reported				168,635,472	304,618,919	473,254,391
Prior period adjustments				(1,404,727)	-	(1,404,727)
Net assets at July 1, 2005, as restated				167,230,745	304,618,919	471,849,664
Net assets at June 30, 2006				\$ 175,207,506	\$ 323,320,945	\$ 498,528,451

The accompanying notes are an integral part of this statement.

**State of Hawaii
Department of Health
Governmental Funds — Balance Sheet
June 30, 2006**

	General	Tobacco Settlement	Deposit Beverage Container	Other Funds	Total Governmental
Assets					
Equity in cash and cash equivalent in State Treasury	\$ 58,025,302	\$ 31,962,209	\$ 28,941,978	\$ 85,324,438	\$ 204,253,927
Accrued interest receivable	-	294,470	218,572	548,185	1,061,227
Accounts receivable	-	-	1,717,511	-	1,717,511
Due from Federal government	-	-	-	4,675,235	4,675,235
Total assets	<u>\$ 58,025,302</u>	<u>\$ 32,256,679</u>	<u>\$ 30,878,061</u>	<u>\$ 90,547,858</u>	<u>\$ 211,707,900</u>
Liabilities and Fund Balances					
Liabilities					
Vouchers and contracts payable	\$ 43,017,358	\$ 8,437,267	\$ 4,215,156	\$ 10,535,585	\$ 66,205,366
Accrued wages and employee benefits	7,637,947	52,981	26,159	2,145,411	9,862,498
Deferred income	-	-	-	578,654	578,654
Due to State of Hawaii	36,800	-	-	-	36,800
Due to other funds	-	-	-	365,000	365,000
Beverage container deposits	-	-	8,682,455	-	8,682,455
Total liabilities	<u>50,692,105</u>	<u>8,490,248</u>	<u>12,923,770</u>	<u>13,624,650</u>	<u>85,730,773</u>
Fund balance					
Reserved for encumbrances	28,527,347	6,431,937	4,016,029	41,164,565	80,139,878
Unreserved, reported in					
General fund	(21,194,150)	-	-	-	(21,194,150)
Tobacco settlement fund	-	17,334,494	-	-	17,334,494
Deposit beverage container fund	-	-	13,938,262	-	13,938,262
Special revenue funds	-	-	-	35,758,643	35,758,643
Total fund balance	<u>7,333,197</u>	<u>23,766,431</u>	<u>17,954,291</u>	<u>76,923,208</u>	<u>125,977,127</u>
Total liabilities and fund balance	<u>\$ 58,025,302</u>	<u>\$ 32,256,679</u>	<u>\$ 30,878,061</u>	<u>\$ 90,547,858</u>	<u>\$ 211,707,900</u>

The accompanying notes are an integral part of this statement.

State of Hawaii
Department of Health
Reconciliation of the Governmental Fund Balance to the
Statement of Net Assets
June 30, 2006

Total fund balance – governmental funds	\$ 125,977,127
Amounts reported for governmental activities in the statement of net assets are different because	
Tobacco settlement receivable (net of Due to State of Hawaii amounts) is not available for current financial resources and therefore is not reported as an asset in the governmental funds.	4,475,000
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds.	68,791,606
Compensated absences reported in the statement of net assets do not require the use of current financial resources and therefore are not reported as liabilities in the governmental funds.	(23,500,231)
Workers' compensation liability reported in the statement of net assets does not require the use of current financial resources and therefore is not reported as a liability in the governmental funds.	(535,996)
Net assets of governmental activities	<u>\$ 175,207,506</u>

The accompanying notes are an integral part of this statement.

**State of Hawaii
Department of Health
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balance
Year Ended June 30, 2006**

	General	Tobacco Settlement	Deposit Beverage Container	Other Funds	Total
Revenues					
State allotment, net	\$ 393,071,051	-	-	\$ 18,489,542	\$ 411,560,593
Intergovernmental	-	-	-	104,069,896	104,069,896
Tobacco settlement	-	34,863,445	-	-	34,863,445
Deposit beverage container program	-	-	21,868,068	-	21,868,068
Nonimposed employee fringe benefits	44,722,012	-	-	-	44,722,012
Taxes, fees, fines and other	-	-	-	46,547,347	46,547,347
Interest income	-	864,646	936,144	2,191,219	3,992,009
Total revenues	437,793,063	35,728,091	22,804,212	171,298,004	667,623,370
Expenditures					
General administration	20,060,402	-	-	8,872,883	28,933,285
Environmental health	22,614,253	-	18,632,578	17,303,309	58,550,140
Behavioral health services	201,137,186	-	-	41,095,000	242,232,186
Health resources	200,941,635	14,299,408	-	86,078,022	301,319,065
Total expenditures	444,753,476	14,299,408	18,632,578	153,349,214	631,034,676
Excess (deficiency) of revenues over expenditures	(6,960,413)	21,428,683	4,171,634	17,948,790	36,588,694
Other financing sources (uses)					
Transfers in	-	-	-	6,881,292	6,881,292
Transfers out	(7,095,698)	(20,458,313)	-	(3,756,037)	(31,310,048)
Total other financing sources (uses)	(7,095,698)	(20,458,313)	-	3,125,255	(24,428,756)
Net change in fund balance	(14,056,111)	970,370	4,171,634	21,074,045	12,159,938
Fund balance at July 1, 2005, as previously reported	21,389,308	22,796,061	15,187,384	55,849,163	115,221,916
Prior period adjustments	-	-	(1,404,727)	-	(1,404,727)
Fund balance at July 1, 2005, as restated	21,389,308	22,796,061	13,782,657	55,849,163	113,817,189
Fund balance at June 30, 2006	\$ 7,333,197	\$ 23,766,431	\$ 17,954,291	\$ 76,923,208	\$ 125,977,127

The accompanying notes are an integral part of this statement.

State of Hawaii
Department of Health
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balance of Governmental Funds to the
Statement of Activities
Year Ended June 30, 2006

Net change in fund balance – total governmental funds	\$ 12,159,938
Amounts reported for governmental activities in the statement of activities are different because	
Accrual of tobacco settlement receivable is reported in the statement of activities but not as revenue, expenditures, or transfers in the governmental funds as it was not available at June 30, 2006.	(200,000)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays for the year.	(3,328,574)
Compensated absences reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	(704,177)
Decrease in the noncurrent portion of workers' compensation liability reported in the statement of activities do not require the use of current financials resources and therefore is not reported as an expenditure in governmental funds.	49,574
Change in net assets of governmental activities	<u>\$ 7,976,761</u>

The accompanying notes are an integral part of this statement.

State of Hawaii
Department of Health
Statement of Net Assets — Proprietary Funds
June 30, 2006

	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Loan Fund	Total
Assets			
Current assets			
Equity in cash and cash equivalents in State Treasury	\$ 143,710,313	\$ 18,136,674	\$ 161,846,987
Accounts receivable	5,574	-	5,574
Loan fees receivable	538,181	127,683	665,864
Accrued interest receivable	1,197,143	41,882	1,239,025
Other accrued interest	1,157,284	130,209	1,287,493
Due from other funds	-	365,000	365,000
Due from federal government	1,516,682	536,778	2,053,460
Current portion of loans receivable	13,615,505	980,712	14,596,217
Total current assets	161,740,682	20,318,938	182,059,620
Loans receivable, net of current portion	125,060,326	15,987,959	141,048,285
Capital assets, net of accumulated depreciation, at cost	16,799	285,740	302,539
Total assets	<u>\$ 286,817,807</u>	<u>\$ 36,592,637</u>	<u>\$ 323,410,444</u>
Liabilities			
Current liabilities			
Accounts payable and other accrued liabilities	\$ 67,225	\$ 22,274	\$ 89,499
Total liabilities	67,225	22,274	89,499
Net Assets			
Invested in capital assets	16,799	285,740	302,539
Restricted - expendable	286,733,783	36,284,623	323,018,406
Total net assets	286,750,582	36,570,363	323,320,945
Total liabilities and net assets	<u>\$ 286,817,807</u>	<u>\$ 36,592,637</u>	<u>\$ 323,410,444</u>

The accompanying notes are an integral part of this statement.

State of Hawaii
Department of Health
Statement of Revenues, Expenses and Changes in Fund Net Assets —
Proprietary Funds
Year Ended June 30, 2006

	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Loan Fund	Total
Operating revenues			
Interest income from loans	\$ 3,493,938	\$ 181,196	\$ 3,675,134
Administrative loan fee	1,481,753	486,028	1,967,781
Total revenues	<u>4,975,691</u>	<u>667,224</u>	<u>5,642,915</u>
Expenses			
Administrative	1,268,546	327,654	1,596,200
State program management	-	351,991	351,991
Water protection	-	73,457	73,457
Small systems	-	130,000	130,000
Total expenses	<u>1,268,546</u>	<u>883,102</u>	<u>2,151,648</u>
Operating income (loss)	3,707,145	(215,878)	3,491,267
Nonoperating revenues			
State contributions	2,053,000	1,661,000	3,714,000
Federal contributions	1,862,740	4,072,286	5,935,026
Other interest income	4,997,487	560,766	5,558,253
Other	3,480	-	3,480
Total nonoperating revenues	<u>8,916,707</u>	<u>6,294,052</u>	<u>15,210,759</u>
Change in net assets	12,623,852	6,078,174	18,702,026
Net assets at July 1, 2005	<u>274,126,730</u>	<u>30,492,189</u>	<u>304,618,919</u>
Net assets at June 30, 2006	<u>\$ 286,750,582</u>	<u>\$ 36,570,363</u>	<u>\$ 323,320,945</u>

The accompanying notes are an integral part of this statement.

State of Hawaii
Department of Health
Statement of Cash Flows — Proprietary Funds
Year Ended June 30, 2006

	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Loan Fund	Total
Cash flows from operating activities			
Interest income from loans	\$ 3,587,191	\$ 179,664	\$ 3,766,855
Administrative loan fees	1,491,362	464,122	1,955,484
Principal repayments on loans	11,388,734	821,692	12,210,426
Disbursement of loan proceeds	(3,591,160)	(3,979,454)	(7,570,614)
Payment to employees	(1,122,860)	(297,964)	(1,420,824)
Payments to vendors	(141,590)	(524,236)	(665,826)
Net cash flows provided by (used in) operating activities	11,611,677	(3,336,176)	8,275,501
Cash flows from noncapital financing activities			
State contributions	2,053,000	1,661,000	3,714,000
Federal contributions	353,185	4,886,650	5,239,835
Other income	3,480	-	3,480
Net advances to other funds	-	(90,000)	(90,000)
Net cash flows provided by noncapital financing activities	2,409,665	6,457,650	8,867,315
Cash flows from capital and related financing activities			
Purchase of equipment	(18,899)	(175,893)	(194,792)
Net cash flows used in capital and related financing activities	(18,899)	(175,893)	(194,792)
Cash flows from investing activities			
Other interest	4,190,064	463,671	4,653,735
Net cash flows provided by investing activities	4,190,064	463,671	4,653,735
Net increase in cash and cash equivalents	18,192,507	3,409,252	21,601,759
Cash and cash equivalents at July 1, 2005	125,517,806	14,727,422	140,245,228
Cash and cash equivalents at June 30, 2006	\$ 143,710,313	\$ 18,136,674	\$ 161,846,987

The accompanying notes are an integral part of this statement.

State of Hawaii
Department of Health
Statement of Cash Flows — Proprietary Funds
Year Ended June 30, 2006

	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Loan Fund	Total
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities			
Operating income (loss)	\$ 3,707,145	\$ (215,878)	\$ 3,491,267
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Depreciation expense	2,100	103,408	105,508
Change in assets and liabilities			
Accounts receivable	(5,574)	-	(5,574)
Loans receivable	7,797,574	(3,157,761)	4,639,813
Accrued interest on loans receivables	93,253	(1,532)	91,721
Loan fees receivable	9,609	(21,907)	(12,298)
Accounts payable and other accrued liabilities	7,570	(42,506)	(34,936)
Net cash provided by (used in) operating activities	<u>\$ 11,611,677</u>	<u>\$ (3,336,176)</u>	<u>\$ 8,275,501</u>

The accompanying notes are an integral part of this statement.

State of Hawaii
Department of Health
Statement of Fiduciary Net Assets — Fiduciary Funds
June 30, 2006

	Agency Funds
Assets	
Cash and cash equivalents	\$ 332,223
Total assets	<u>\$ 332,223</u>
Liabilities	
Due to others	\$ 332,223
Total liabilities	<u>\$ 332,223</u>

The accompanying notes are an integral part of this statement.

State of Hawaii
Department of Health
Notes to Financial Statements
June 30, 2006

1. Organization and Summary of Significant Accounting Policies

Financial Reporting Entity

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

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

The Department is part of the executive branch of the State of Hawaii (the "State"). The financial statements of the Department are intended to present the financial position and the changes in financial position and cash flows, where applicable, of only that portion of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State as of June 30, 2006, and the changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America. The State Comptroller maintains the central accounts for all State funds and publishes a comprehensive annual financial report for the State annually, which includes the Department's financial activities.

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

Department-wide Financial Statements

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

Certain eliminations have been made as prescribed by GASB Statement No. 34 related to interfund activities, receivables, and payables. All internal balances have been eliminated except those representing balances between governmental and business-type activities, which are presented as internal balances and eliminated in the total department column. In the statement of activities, those transactions between governmental and business-type activities have not been eliminated.

Fund Financial Statements

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

State of Hawaii
Department of Health
Notes to Financial Statements
June 30, 2006

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

The Department has the option under GASB Statement 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting, to elect to apply all Financial Accounting Standards Board ("FASB") pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The Department's enterprise funds have elected not to apply FASB statements after the applicable date.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

Governmental Funds (Governmental Activities):

- *General Fund* — The General Fund is the general operating fund of the Department. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund presented is a part of the State's General Fund and is limited to only those appropriations and obligations of the Department.
- *Special Revenue Funds* — Special revenue funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.
- *Capital Projects Funds* — Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary fund type) and are included in Other Funds in the fund financial statements.

Proprietary Funds (Business-Type Activities):

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

Fiduciary Funds:

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

Equity in Cash and Cash Equivalents in State Treasury

The State Director of Finance is responsible for the safekeeping of cash in the State Treasury in accordance with State laws. The Director of Finance may invest any monies of the State, which

State of Hawaii
Department of Health
Notes to Financial Statements
June 30, 2006

in the Director's judgment, are in excess of the amounts necessary for meeting the immediate requirements of the State. Effective August 1, 1999, cash is pooled with funds from other State agencies and departments and deposited into approved financial institutions or in the State Treasury Investment Pool System. Funds in the investment pool accrue interest based on the average weighted cash balances of each account.

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

GASB Statement No. 40, *Deposit and Investment Risk Disclosures* ("Statement No. 40") requires disclosures over common deposit and investment risks related to credit risk, interest rate risk, and foreign currency risk. Investments can be categorized by type, maturity and custodian to determine the level of interest rate, credit and custodial risk assumed by the Department. However, as all of the Department's monies are held in the State cash pool, the Department does not manage its own investments and the types of investments and related interest rate, credit, and custodial risks are not determinable at the Department level. The risk disclosures of the State's cash pool are included in the State's Comprehensive Annual Financial Report ("CAFR") for the fiscal year ended June 30, 2006 which may be obtained from the following address:

Department of Accounting and General Services
Accounting Division
P.O. Box 119
Honolulu, Hawaii 96810-0119

Tobacco Settlement

In November 1998, the State settled its tobacco lawsuit as part of a nationwide settlement involving 46 other states and various tobacco industry defendants. Under the settlement, those tobacco companies that have joined in the Master Settlement Agreement will pay the State approximately \$1.3 billion over a 25-year period. The Department is responsible for administering the Hawaii Tobacco Settlement Special Fund. The Department receives all tobacco settlement monies and then allocates and appropriates 75% of the funds to other State agencies/departments in accordance with Hawaii Revised Statutes ("HRS") 328L-2. The Department receives annual payments on April 15 of each year for tobacco settlements earned for the preceding calendar year.

The Department received approximately \$34,900,000 in tobacco settlement proceeds during the year ended June 30, 2006 for the calendar year ended December 31, 2005. In accordance with GASB Technical Bulletin No. 04-01, *Tobacco Settlement Recognition and Financial Reporting Entity Issues*, the Department has recorded a tobacco settlement receivable for \$17,900,000 in the statement of net assets representing tobacco settlements earned for the period January 1, 2006 through June 30, 2006.

Reserved for Encumbrances

Encumbrance accounting, under which purchase orders and contractual commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed in the governmental funds. Although appropriations 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.

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Capital Assets

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

Land	All capitalized
Land improvements	\$100,000
Building and building improvements	\$100,000
Equipment	\$5,000

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

	Governmental- Type Activities	Proprietary Funds and Business- Type Activities
Land improvements	15	Not applicable
Building and building improvements	30	Not applicable
Furniture and equipment	5-7	5-7

Deferred Income

Deferred revenues at the fund level and department-wide level arise when the Department receives resources before it has a legal claim to them. In subsequent periods, when the revenue recognition criteria is met, or when the Department has a legal claim to the resources, the liability for deferred income is removed from the statement of net assets and balance sheet, and revenue is recognized. Deferred income at June 30, 2006 consisted primarily of Federal grant funds for which all eligibility requirements have not yet been met.

Accrued Vacation

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

Intrafund and Interfund Transactions

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

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect

State of Hawaii
Department of Health
Notes to Financial Statements
June 30, 2006

the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Use of Restricted and Unrestricted Net Assets

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

New Accounting Pronouncements

In April 2004, the GASB issued Statement No. 43, *Financial Reporting for Postretirement Benefits Other Than Pension Plans*. This Statement establishes uniform standards of financial reporting by state and local governmental entities for other post employment benefit plans ("OPEB plans"). OPEBs refer to post employment benefits other than pensions. The provisions of this Statement are effective for the State of Hawaii for the fiscal year beginning after December 15, 2005. Management has not yet determined the effect this Statement will have on its financial statements. The Department participates in the State's plan. The costs and benefits of the plan will be allocated at the State level. The Department will record the amounts allocated to it.

In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postretirement Benefits Other Than Pensions*. This Statement establishes standards for the measurement, recognition and display of other postretirement benefits expense/expenditures and related liabilities (assets), note disclosures and required supplementary information in the financial reports of state and local governmental employers. The provisions of this Statement are effective for periods beginning after December 15, 2006. Management has not yet determined the effect this Statement will have on its financial statements.

In June 2005, the GASB issued Statement No. 47, *Accounting for Termination Benefits*. This Statement establishes standards for accounting for termination benefits that affect an employer's obligations. For defined benefit OPEB plans, the provisions of this Statement are effective for the fiscal year beginning after December 15, 2006. For all other termination benefits, the provisions of this Statement are effective in fiscal 2007. Management has not yet determined the effect this Statement will have on its financial statements.

In September 2006, the GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Equity Transfers of Assets and Future Revenues*. This Statement establishes criteria that governments will use to ascertain whether the proceeds received should be reported as revenue or as a liability. The provisions of this Statement are effective for the fiscal year beginning after December 15, 2006. Management has not yet determined the effect this Statement will have on its financial statements.

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

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June 30, 2006

2. Loans Receivable

At June 30, 2006, the proprietary funds loans receivable consisted of loans to county governmental units for the water pollution control and drinking water treatment programs. The loans require annual, semi-annual or quarterly payments, including interest at 0.00% to 3.02%, commencing not later than one year after project completion, notice to proceed, or loan agreement date. Final payment is due not later than twenty years after project completion. Accrued interest receivable on the loans amounted to approximately \$1,239,000 at June 30, 2006.

The following is a schedule of principal payments due on loans for projects completed or in progress as of June 30, 2006:

Year ending June 30,	
2007	\$ 14,596,217
2008	13,159,959
2009	13,475,851
2010	13,794,540
2011	14,122,767
Thereafter	<u>86,495,168</u>
	<u>\$ 155,644,502</u>

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Notes to Financial Statements
June 30, 2006

3. Capital Assets

Capital asset activity for the year ended June 30, 2006 was as follows:

	Beginning Balance	Additions	Dispositions	Ending Balance
Governmental activities				
Capital assets, not being depreciated				
Land	\$ 1,018,080	\$ -	\$ -	\$ 1,018,080
Total capital assets not being depreciated	1,018,080	-	-	1,018,080
Capital assets, being depreciated				
Land improvements	1,862,927	-	-	1,862,927
Building and improvements	132,168,484	-	-	132,168,484
Furniture and equipment	14,578,527	2,451,749	(791,440)	16,238,836
Total capital assets being depreciated	148,609,938	2,451,749	(791,440)	150,270,247
Less accumulated depreciation				
Land improvements	1,781,963	37,296	-	1,819,259
Building and improvements	64,704,328	4,060,018	-	68,764,346
Furniture and equipment	11,021,547	1,537,961	(646,392)	11,913,116
Total accumulated depreciation	77,507,838	5,635,275	(646,392)	82,496,721
Governmental activities, net	<u>\$ 72,120,180</u>	<u>\$ (3,183,526)</u>	<u>\$ (145,048)</u>	<u>\$ 68,791,606</u>
Business-type activities				
Capital assets being depreciated				
Equipment	\$ 748,673	\$ 194,792	\$ (13,366)	\$ 930,099
Total capital assets being depreciated	748,673	194,792	(13,366)	930,099
Less accumulated depreciation for				
Equipment	535,418	105,508	(13,366)	627,560
Total accumulated depreciation	535,418	105,508	(13,366)	627,560
Business-type activities capital assets, net	<u>\$ 213,255</u>	<u>\$ 89,284</u>	<u>\$ -</u>	<u>\$ 302,539</u>

Current period depreciation expense was charged to functions as follows:

Governmental activities		
General administration		\$ 601,458
Environmental health		1,984,456
Behavioral health		1,837,732
Health resources		1,211,629
Total depreciation expense — governmental activities		<u>\$ 5,635,275</u>
Business-type activities		
Environmental health		\$ 105,508
Total depreciation expense — business-type activities		<u>\$ 105,508</u>

State of Hawaii
Department of Health
Notes to Financial Statements
June 30, 2006

4. Long-Term Obligation — Governmental Activities

The changes to the accrued vacation liability as of June 30, 2006 were as follows:

Balance at July 1, 2005	\$ 22,796,054
Increase	10,640,860
Decrease	<u>9,936,683</u>
Balance at June 30, 2006	23,500,231
Less current portion	<u>7,912,528</u>
Noncurrent portion	<u>\$ 15,587,703</u>

5. Non-Imposed Employee Fringe Benefits

Non-imposed employee fringe benefits related to General Fund salaries are assumed by the State and are not charged to the Department. These costs, totaling approximately \$44,700,000 for the fiscal year ended June 30, 2006, have been reported as revenues and expenditures of the Department's General Fund.

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

6. Employee Benefits

Employees' Retirement System

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

The ERS is composed of a contributory retirement option and a noncontributory retirement option. Prior to July 1, 1984, the ERS consisted of only a contributory option. In 1984, legislation was enacted to add a new noncontributory option for members of the ERS who are also covered under social security. Persons employed in positions not covered by social security are precluded from the noncontributory option. The noncontributory option provides for reduced benefits and covers most eligible employees hired after June 30, 1984. Employees hired before that were allowed to continue under the contributory option or to elect the new noncontributory option and receive a refund of employee contributions. All benefits vest after five and ten years of credited service under the contributory and noncontributory options, respectively. Both options provide a monthly retirement allowance based on the employee's age, years of credited service and average final compensation ("AFC"). The AFC is the average salary earned during the five highest paid years of service including the vacation payment, if the employee became a member prior to January 1, 1971. The AFC for members hired on or after that date and prior to January 1, 2003, is based on the three highest paid years of service, excluding the vacation payment. Effective January 1, 2003, the AFC is the highest three calendar years or highest five calendar years plus lump sum vacation payment, or highest three school contract years, or last 36 credited months or last 60 credited months plus lump sum vacation payment. Contributions for employees of the Department are paid from the State General Fund and are included as part of the non-imposed fringe benefit costs discussed in Note 5.

**State of Hawaii
Department of Health
Notes to Financial Statements
June 30, 2006**

On July 1, 2006, a new hybrid contributory plan became effective pursuant to Act 179, SLH of 2004. Members in the hybrid plan will be eligible for retirement at age 62 with five years of credited service or age 55 and 30 years of credited service. Members will receive a benefit multiplier of two percent for each year of credited service in the hybrid plan. The benefit payment options are similar to the current contributory plan. Most of the new employees hired after July 1, 2006 will be required to join the hybrid plan.

Most covered employees of the contributory option are required to contribute 7.8 percent of their salary. The funding method used to calculate the total employer contribution requirement is the entry age normal actuarial cost method. Under this method, employer contributions to the ERS are comprised of normal cost plus level annual payments required to amortize the unfunded actuarial accrued liability over the remaining period of 29 years from July 1, 2000.

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

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

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

Post-retirement Health Care and Life Insurance Benefits

In addition to providing pension benefits, the State, pursuant to Chapter 87, HRS, provides certain health care and life insurance benefits to all qualified employees. For employees hired before July 1, 1996, the State pays the entire monthly health care premium for those retiring with ten or more years of credited service, and 50 percent of the monthly premium for those retiring with fewer than ten years of credited service. For employees hired after June 30, 1996, and retiring with fewer 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 percent of the retired employees' monthly Medicare or non-Medicare premium. For employees hired after June 30, 1996, and retiring with at least 15 years but fewer than 25 years of service, the State pays 75 percent of the retired employees' monthly Medicare or non-Medicare premium; and for those retiring with over 25 years of service, the State pays the entire health care premium. Free life insurance coverage for retirees and free dental coverage for dependents under age 19 are also available. Retirees covered by the medical portion of Medicare are eligible to receive a reimbursement for the basic medical coverage premium. Contributions are financed on a pay-as-you-go basis.

Effective July 1, 2003, the EUTF replaced the Hawaii Public Employees Health Fund under Act 88, SLH 2001. The EUTF was established to provide a single delivery system of health benefits to state and county employees, retirees, and their dependants.

Accumulated Sick Leave

Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limit, but may be taken only in the event of illness and is not convertible to pay upon termination of employment. However, a State employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in ERS. At June 30, 2006, accumulated sick leave was approximately \$61,900,000.

State of Hawaii
Department of Health
Notes to Financial Statements
June 30, 2006

Deferred Compensation Plan

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

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

7. Commitments and Contingencies

Operating Leases

The Department leases various office facilities and equipment on a long-term basis as provided for in the lease agreements. The following is a schedule of minimum future rent expense on noncancelable operating leases at June 30, 2006:

Year ending June 30,	
2007	\$ 1,058,900
2008	268,800
2009	112,200
2010	83,700
2011	18,500
	<u>\$ 1,542,100</u>

Rent expenditures for the fiscal year ended June 30, 2006 approximated \$2.3 million.

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, 2006, the State recorded an estimated loss for workers' compensation, automobile and general liability claims as long-term debt as the losses will not be liquidated with currently expendable available financial resources. The estimated losses will be paid from legislative appropriations of the State's General Fund. The Department's portion of the State's workers' compensation expense for the year ended June 30, 2006 was approximately \$504,000.

Litigation

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

Ceded Lands

The Office of Hawaiian Affairs ("OHA") and the State of Hawaii are presently in litigation involving the State's alleged failure to properly account for and pay to OHA monies due to OHA under the

State of Hawaii
Department of Health
Notes to Financial Statements
June 30, 2006

provisions of the Hawaii State Constitution and Chapter 10 of the Hawaii Revised Statutes for use by the State of certain ceded lands. As of June 30, 2006, the outcome of the lawsuit had not been decided.

During the 2006 Legislative Session, the State of Hawaii Legislature enacted Act 178, which provided interim measures to ensure that a certain amount of proceeds were made available to OHA from the pro rata portion of the public land trust, for the betterment of the conditions of native Hawaiians. The Act provided that the State agencies that collect receipts from the use of lands within the public land trust transfer a total of \$3,775,000 to OHA within 30 days of the close of each fiscal quarter (or \$15,100,000 per fiscal year), beginning with the 2006 fiscal year. In addition, the Act appropriated \$17,500,000 out of the State's general revenues to pay OHA for underpayments of the State's use of lands in the public land trust for the period from July 1, 2001 to June 30, 2005.

8. Restatements to the Department-wide Net Assets and Governmental Funds Fund Balances

The financial statements as of and for the year ended June 30, 2005, not presented herein, were audited by other independent auditors, whose report dated June 15, 2006 expressed an unqualified opinion on those financial statements. The Department has restated its June 30, 2005 department-wide net assets and governmental funds fund balances to correct an error in accounting for the vouchers and contracts payable balance in the Deposit Beverage Container Special Fund to properly report unrecorded liabilities at June 30, 2005.

As a result of the correction, the Department made the following adjustments to its previously reported June 30, 2005 department-wide net assets and governmental funds fund balances.

	Governmental Activities
Net assets at June 30, 2005, as previously reported	\$ 168,635,472
Adjustment for unrecorded vouchers and contracts payable	<u>(1,404,727)</u>
Net assets at June 30, 2005, as restated	<u>\$ 167,230,745</u>

	Deposit Beverage Container Fund	Governmental Funds
Fund balances at June 30, 2005, as previously reported	\$ 15,187,384	\$ 115,221,916
Adjustment for unrecorded vouchers and contracts payable	<u>(1,404,727)</u>	<u>(1,404,727)</u>
Fund balances at June 30, 2005, as restated	<u>\$ 13,782,657</u>	<u>\$ 113,817,189</u>

**Required Supplementary Information
Other than Management's Discussion
and Analysis**

State of Hawaii
Department of Health
Budgetary Comparison Schedule — General Fund
Year Ended June 30, 2006

	Budgeted Amounts		Actual Amounts
	Original	Final	(Budgetary Basis)
Revenues			
Current-year appropriations	\$ 395,661,278	\$ 399,262,140	\$ 398,492,858
Total revenues	395,661,278	399,262,140	398,492,858
Expenditures			
General administration	16,939,653	17,580,261	17,513,057
Environmental health administration	17,536,471	17,905,145	17,795,224
Behavioral health services administration	182,086,768	183,606,708	183,399,329
Health resources administration	179,098,386	180,170,026	179,785,248
Total expenditures	395,661,278	399,262,140	398,492,858
Excess of revenues over expenditures	\$ -	\$ -	\$ -

The accompanying notes are an integral part of this schedule.

State of Hawaii
Department of Health
Budgetary Comparison Schedule — Tobacco Settlement Fund
Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary Basis)</u>
Revenues			
Current-year funds	\$ 43,143,467	\$ 43,159,693	\$ 35,438,437
Total revenues	<u>43,143,467</u>	<u>43,159,693</u>	<u>35,438,437</u>
Expenditures			
Health resources administration	<u>43,143,467</u>	<u>43,159,693</u>	<u>27,991,545</u>
Total expenditures	<u>43,143,467</u>	<u>43,159,693</u>	<u>27,991,545</u>
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,446,892</u>

The accompanying notes are an integral part of this schedule.

State of Hawaii
Department of Health
Budgetary Comparison Schedule — Deposit Beverage Container Fund
Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary Basis)</u>
Revenues			
Current-year funds	\$ 53,100,000	\$ 53,105,546	\$ 55,471,329
Total revenues	53,100,000	53,105,546	55,471,329
Expenditures			
Environmental health administration	53,100,000	53,105,546	52,478,103
Total expenditures	53,100,000	53,105,546	52,478,103
Excess of revenues over expenditures	\$ -	\$ -	\$ 2,993,226

The accompanying notes are an integral part of this schedule.

State of Hawaii
Department of Health
Notes to Required Supplementary Information
June 30, 2006

1. Budgeting and Budgetary Control

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

- *The Budget* — Not less than 20 days before the State Legislature convenes in every odd-numbered year, the Governor submits to the State Legislature, and to each member thereof, a budget which contains the program and budget recommendation of the Governor for the succeeding biennium. The budget in general contains: the State program structure; statements of statewide objectives; financial requirements for the next biennium to carry out the recommended programs; a summary of State receipts and revenues in the last completed fiscal year; a revised estimate for the fiscal year in progress; and an estimate for the succeeding biennium.
- *Legislative Review* — The State Legislature considers the Governor's proposed program and financial plan and budget, evaluates alternatives to the Governor's recommendations, adopts programs and determines the State budget. It may, from time to time, request the Department of Budget and Finance and any agency to conduct such analysis of programs and finances as will assist in determining the State's program and financial plan and budget.
- *Program Execution* — Except as limited by policy decisions of the Governor, appropriations by the State Legislature, and other provisions of law, the agencies responsible for the programs administer the programs and are responsible for their proper management. The appropriations by the State Legislature for a biennium are allocated between the two fiscal years of the biennium in the manner provided in the budget or appropriations act and as further prescribed by the Director of Finance. No appropriation transfers or changes between programs or agencies can be made without legislative authorization. Authorized transfers or changes, when made, should be reported to the State Legislature.

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

Budgets are adopted for the General Fund of the Department and are prepared on the basis of cash receipts and amounts disbursed, which is a basis of accounting other than generally accepted accounting principles ("GAAP").

The major difference between the budgetary and GAAP basis are that: (1) the budget is prepared on the basis of cash receipts and amounts disbursed; and (2) encumbrances are recorded as the equivalent of expenditures under the budgetary basis.

Since budgetary basis differs from GAAP, budget and actual amounts in the accompanying Required Supplementary Information – Budgetary Comparison Schedules are presented on the budgetary basis. A reconciliation of revenues in excess of (less than) expenditures on a budgetary basis at June 30, 2006, to revenues in excess of (less than) expenditures presented in conformity with GAAP is set forth in Note 2 to the Required Supplementary Information.

State of Hawaii
Department of Health
Notes to Required Supplementary Information
June 30, 2006

2. Explanation of Differences between Budgetary Actual and GAAP Revenues and Expenditures

	General Fund	Tobacco Settlement Fund	Deposit Beverage Container Fund
Excess of revenues over expenditures – actual on a budgetary basis	\$ -	\$ 7,446,892	\$ 2,993,226
Reserve for encumbrances at year end	28,527,347	6,431,937	4,016,029
Expenditures for liquidation of prior year's encumbrances	(47,836,400)	(6,078,248)	(2,204,667)
Accrual and other adjustments	12,348,640	13,628,102	(632,954)
Excess of revenues over expenditures (expenditures over revenues) – GAAP basis	<u>\$ (6,960,413)</u>	<u>\$ 21,428,683</u>	<u>\$ 4,171,634</u>

**Schedule of
Expenditures of Federal Awards**

**State of Hawaii
Department of Health
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2006**

Federal Grantor/Pass-Through Grantor/Program Title	Project Number	CFDA Contract, Award or Assistance ID Number	Federal Expenditures	Amount Provided to Subrecipient
U.S. Department of Health and Human Services (DHHS)				
Direct Programs				
Special Programs for Aging – Title VII Chapter 3	468	93.041	\$ 36,895	\$ -
Special Programs for Aging – Title VII Chapter 2	468	93.042	74,342	-
Special Programs for Aging – Title III Part D	401	93.043	131,816	131,816
Special Programs for Aging – Title III Part B	401	93.044	2,099,617	2,050,356
Special Programs for Aging – Title III Part C1 & C2	401	93.045	2,385,205	1,895,790
Nutrition Services Incentive Program	406	93.053	576,411	576,411
Subtotal Aging Cluster			5,061,233	4,522,557
Special Programs for Aging – Title IV	405, 478	93.048	363,686	144,200
Special Programs for Aging – Title III Part E	401	93.052	1,149,985	1,149,985
Project Ho'omohala - Transition to Adulthood	229	93.104	179,478	179,478
Maternal and Child Health Federal Consolidated Programs	various	93.110	909,802	311,312
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	247	93.116	959,440	-
Emergency Medical Services for Children	388	93.127	94,374	-
Primary Care Services – Resource Coordination and Development	298	93.130	145,783	-
Injury Prevention and Control Research and State and Community Based Programs	various	93.136	233,468	98,652
Projects for Assistance in Transition from Homelessness (PATH)	various	93.150	331,465	331,465
Hansen's Disease National Ambulatory Care Program	264	93.215	499,184	-
Family Planning – Services	239	93.217	1,679,421	-
Consolidated Knowledge Development and Application Program	various	93.230	915,441	740,282
Traumatic Brain Injury State Demonstration Grant Program	434	93.234	117,806	-
Abstinence Education Initiative	273	93.235	120,252	98,062
Cooperative agreements for State Treatment Outcomes and Performance Pilot Studies Enhancement	various	93.238	64,983	22,938
Rural Hospital Flexibility Program	415	93.241	739,944	-
Substance Abuse and Mental Health Services	various	93.243	2,070,524	406,815
Universal Newborn Hearing Screening	416	93.251	96,571	6,985
State Planning Grants Health Care Access for the Uninsured	various	93.256	258,492	187,722
Immunization Grants	various	93.268	10,586,716	6,453,706 *
Centers for Disease Control and Prevention	various	93.283	11,374,105	792,779 *
Small Rural Hospital Improvement	454	93.301	65,678	-
Child Care and Development Block Grant	244	93.575	198,370	195,441
Community-Based Family Resource and Support Grants	270	93.590	695,540	604,780
Development Disabilities Basic Support and Advocacy Grants	240	93.630	508,171	9,685
State Survey and Certification of Health Care Providers and Suppliers	various	93.777	1,104,729	99,822
Centers for Medicare and Medicaid Services Research, Demonstrations and Evaluations	various	93.779	439,798	-
National Bioterrorism Hospital Preparedness Program	435	93.889	3,688,244	3,088,409 *
Grants to States for Operation of Offices of Rural Health	299	93.913	102,637	-
HIV Care Formula Grants	293	93.917	2,733,345	879,588 *
Healthy Start Initiative	various	93.926	160,725	-
HIV Prevention Project	266	93.940	2,227,440	749,424
HIV / AIDS Surveillance	various	93.944	182,402	-
Block Grants for Community Mental Health Services	various	93.958	1,278,692	386,499
Substance Abuse Prevention and Treatment Block Grants	various	93.959	6,242,875	5,858,875 *
Preventive Health Services – Sexually Transmitted Diseases Control Grants	268	93.977	388,383	-
Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance System	261	93.988	329,922	30,538
Preventive Health and Health Services Block Grant	various	93.991	908,210	-
Maternal and Child Health Services Block Grant	various	93.994	2,931,083	36,212
Vital Statistics Cooperative Program	285	93.200-89-7211	564,081	-
Drug and Alcohol Services Information System	371	93.	36,324	-
Other	475	93.	786	-
Total Department of Health and Human Services			62,982,641	27,636,336

**State of Hawaii
Department of Health
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2006**

Federal Grantor/Pass-Through Grantor/Program Title	Project Number	CFDA Contract, Award or Assistance ID Number	Federal Expenditures	Amount Provided to Subrecipient
U.S. Department of Agriculture				
Direct Program				
Special Supplemental Nutrition Program for Women, Infants, and Children	275	10.557	27,134,605	2,014,541 *
Nutrition Program for the Elderly	406	10.570	576,411	576,411
Total Department of Agriculture			<u>27,711,016</u>	<u>2,590,952</u>
Environmental Protection Agency (EPA)				
Direct Program				
Air Pollution Control Program Support	233	66.001	721,542	-
Surveys, Studies, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	various	66.034	64,952	-
Water Pollution Control – State and Interstate Program Support	various	66.419	1,611,905	-
State Public Water System Supervision	232	66.432	516,627	-
Water Quality Management Program	10284-11284	66.454	100,469	-
Capitalization Grants for State Revolving Funds	4206-15206	66.458	1,862,740	1,457,173 *
Nonpoint Source Implementation Grants	3290-7289	66.460	1,421,767	-
Water Quality Cooperative Agreements	256	66.463	25,879	-
Capitalization Grants for Drinking Water State Revolving Funds	1207-7207	66.468	3,957,146	3,219,797 *
Operator Certification Expense Grant	310	66.471	161,900	-
Beach Monitoring and Notification Program	various	66.472	257,587	-
Water Protection Coordination	449	66.474	30,325	-
Assessment and Watershed Protection Program Grants	225	66.480	33,000	-
Water Infrastructure Oversight	294	66.606	4,750	-
Environmental Information Exchange Grant Program	467	66.608	6,753	-
Toxic Substances Compliance Monitoring Cooperative Agreements	243	66.701	92,900	-
TSCA Title IV State Lead Grants	330	66.707	78,562	-
Multi-Media Capacity Building Grants for States and Tribes	various	66.709	57,081	-
Hazardous Waste Management State Program Support	230	66.801	604,280	-
Superfund State Site Specific Cooperative Agreements	various	66.802	368,072	-
State Underground Storage Tanks Program (UST Program)	220	66.804	167,681	-
Leaking Underground Storage Tank (LUST) Trust Fund Program	258	66.805	333,232	-
Model State Bottle Bill Project	446	66.808	12,937	-
State Response Program Grants	469	66.817	676,878	-
Total Environmental Protection Agency			<u>13,168,965</u>	<u>4,676,970</u>
U.S. Department of Education				
Direct Program				
Grants for Infants and toddlers with Disabilities	213	84.181	2,550,739	947,472
Total Department of Education			<u>2,550,739</u>	<u>947,472</u>
U.S. Department of Defense				
Direct Program				
Defense Environmental Restoration Program	245	12.113	237,240	-
FYE State Homeland Security Grant (MOA)	470	12.	7,921	-
Total Department of Defense			<u>245,161</u>	<u>-</u>
U.S. Department of Justice				
Direct Program				
Enforcing Underage Drinking Laws Program	various	16.727	294,475	285,401
Total Department of Justice			<u>294,475</u>	<u>285,401</u>
U.S. Department of Transportation				
Direct Program				
Highway Safety Grants	476	20.600	39,409	-
Underage Drinking Prevention	473	20.601	(100,000)	-
Total Department of Transportation			<u>(60,591)</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 106,892,406</u>	<u>\$ 36,137,132</u>

* Denotes Major Federal Program

State of Hawaii
Department of Health
Notes to the Schedule of Expenditures of Federal Awards
June 30, 2006

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the State of Hawaii, Department of Health (the "Department"), and is presented on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. Loans Outstanding

The Department had the following loan balances outstanding at June 30, 2006. Loans made during the year are included in the federal expenditures presented in the schedule of expenditures of federal awards.

Program Title	Federal CFDA Number	Amount Outstanding
Capitalization Grants for State Revolving Funds	66.458	\$ 6,414,148
Capitalization Grants for Drinking Water State Revolving Funds	66.468	5,006,780

3. Noncash Awards

The Department also receives noncash awards in the form of vaccine that is provided to children for the Immunization Grants program. The Department expended \$7,513,166 in vaccines for the fiscal year ended June 30, 2006.

PART II

Government Auditing Standards

**Report of Independent Auditors on Internal Control Over
Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

The Auditor
State of Hawaii

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of Hawaii, Department of Health (the "Department") as of and for the year ended June 30, 2006, which collectively comprise the Department's basic financial statements and have issued our report thereon dated March 31, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Department's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as Finding No. 06-01.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider Finding No. 06-01 to be a material weakness.

Compliance and Other Matters

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

We noted certain matters that we reported to the State Auditor and management of the Department in a separate letter dated March 28, 2007.

This report is intended solely for the information and use of the State Auditor, the Department's management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Accuity LLP

Honolulu, Hawaii
March 28, 2007

PART III

OMB Circular A-133



CERTIFIED PUBLIC ACCOUNTANTS

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

The Auditor
State of Hawaii

Compliance

We have audited the compliance of the State of Hawaii, Department of Health (the "Department") with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The Department's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Department's management. Our responsibility is to express an opinion on the Department's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Department's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Department's compliance with those requirements.

As described in Finding Nos. 06-02 and 06-03 in the accompanying schedule of findings and questioned costs, the Department did not comply with requirements regarding Eligibility and Reporting that are applicable to its HIV Care Formula Grant Program. Compliance with such requirements is necessary, in our opinion, for the Department to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described above regarding the Department's compliance with the requirements of the HIV Care Formula Grant Program regarding Eligibility and Reporting, the Department complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006. In addition, the results of our auditing procedures disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Finding Nos. 06-04 through 06-08.

We also noted certain other matters that we will report to the State Auditor and management of the Department in a separate letter dated March 28, 2007.

Internal Control Over Compliance

The management of the Department is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered 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 opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Department's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as Finding Nos. 06-02 through 06-04.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions, and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider Finding Nos. 06-02 and 06-03 to be material weaknesses.

This report is intended solely for the information and use of the State Auditor, the Department's management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Accuity LLP

Honolulu, Hawaii
March 28, 2007

PART IV

Schedule Of Findings and Questioned Costs

**State of Hawaii
 Department of Health
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2006**

Section I – Summary of Auditor’s Results

Financial Statements

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

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	Yes
Reportable condition(s) identified that are not considered to be material weakness(es)?	Yes
Type of auditor’s report issued on compliance for major programs	Qualified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	Yes

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
93.268	U.S. Department of Health & Human Services Immunization Grants
93.283	Centers for Disease Control and Prevention
93.889	Bioterrorism Hospital Preparedness Program
93.917	HIV Care Formula Grants
93.959	Substance Abuse Prevention & Treatment Block Grant
10.557	U.S. Department of Agriculture Special Supplemental Nutrition Program for Women, Infants & Children
66.458	U.S. Environmental Protection Agency Capitalization Grants for State Revolving Funds
66.468	Capitalization Grants for Drinking Water State Revolving Fund

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

**State of Hawaii
 Department of Health
 Financial Statement Finding
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2006**

II. Financial Statement Findings

		Questioned Cost
Finding No. 06-01:	Restatement of Beginning Fund Balance / Net Assets (Material Weakness)	\$ _____ -
Federal Agency:	Finding is not specific to a Federal Agency	
CFDA Number and Title:	Finding is not specific to a Federal Agency	
Award Number and Award Year:	Not applicable Not applicable	

Finding and Cause and Effect

During our current year financial audit of the State of Hawaii, Department of Health (the "Department"), we identified an accounting error in the Department's basic financial statements as of and for the year ended June 30, 2005 due to the lack of oversight by fiscal management over the calculation of the Deposit Beverage Container Fund's year end vouchers and contracts payable balance and related expenditures for fiscal year 2005. Accordingly, the Department restated its opening net assets attributable to governmental activities and governmental funds fund balances as of July 1, 2005 to correct the error.

The following table reconciles the net assets attributable to governmental activities at June 30, 2005, as previously reported, to the opening net assets attributable to governmental activities at July 1, 2005, as restated:

	Governmental Activities
Net assets at June 30, 2005, as previously reported	\$ 168,635,472
Adjustment attributable to understatement of liabilities and expenses	<u>(1,404,727)</u>
Net assets at July 1, 2005, as restated	<u>\$ 167,230,745</u>

The following table reconciles the governmental funds fund balances at June 30, 2005, as previously reported, to the opening governmental funds fund balances at July 1, 2005, as restated:

	Deposit Beverage Container Fund	Governmental Funds
Fund balances at June 30, 2005, as previously reported	\$ 15,187,384	\$ 115,221,916
Adjustment attributable to understatement of liabilities and expenses	<u>(1,404,727)</u>	<u>(1,404,727)</u>
Fund balances at July 1, 2005, as restated	<u>\$ 13,782,657</u>	<u>\$ 113,817,189</u>

**State of Hawaii
Department of Health
Financial Statement Finding
Schedule of Findings and Questioned Costs
Year Ended June 30, 2006**

Criteria

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

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

- (1) Financial statements and schedule of expenditures of federal awards.
- (2) Summary schedule of prior audit findings.
- (3) Auditor's report.
- (4) Corrective action plan.

Although audited financial statements were prepared and submitted as of and for the year ended June 30, 2005, the financial statements submitted were misstated, and restated beginning balances are reported in the financial statements as of and for the year ended June 30, 2006.

Recommendation

We recommend that, and the Department has already, restated the beginning balances in its basic financial statements for the year ended June 30, 2006 to correct the error identified. We also recommend that fiscal management of the Department provide greater oversight to ensure that the basic financial statements are prepared and presented in accordance with generally accepted accounting principles ("GAAP").

**State of Hawaii
 Department of Health
 HIV Care Formula Grant
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2006**

Section III. Federal Award Findings and Questioned Costs

		Questioned Cost
Finding No. 06-02:	Eligibility Requirements (Material Weakness)	\$ _____ =
Federal Agency:	Department of Health and Human Services ("DHHS")	
CFDA Number and Title:	93.917 – HIV Care Formula Grants	
Award Number and Award Year:	2 X07HA00050-15-00 4/1/05 – 3/31/06	
	2 X07HA00050-16-00 4/1/06 – 3/31/07	

Finding and Cause and Effect

During our current year audit, we tested 30 patient records. Due to the Department maintaining insufficient supporting documents, we noted the following instances of noncompliance with eligibility requirements for the HIV Care Formula Grants:

- For 26 out of 30 patient records tested, the program was unable to provide documentation to evidence the eligibility of the Aids Drug Assistance Program ("ADAP") participants.
- For all 4 patient records tested, the program was unable to provide documentation to evidence the eligibility of H-COBRA participants.
- For 24 out of 30 ADAP patient records tested, the program was unable to provide documentation to evidence that 6-month verbal recertifications were performed.
- For 19 out of 30 ADAP patient records tested, the program was unable to provide documentation to evidence that 12-month semi-annual recertifications were performed.

The program has taken steps to remediate this recurring finding from the prior year (Finding No. 05-02). However, due to the timing of the completion of the fiscal 2005 audit, the program was unable to implement our recommendations and meet the Eligibility requirements in fiscal 2006.

Criteria

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

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

**State of Hawaii
Department of Health
HIV Care Formula Grant
Schedule of Findings and Questioned Costs
Year Ended June 30, 2006**

months to ensure that the program only services eligible clients. The semi-annual recertification process should be both verbal and written.

Recommendation

We recommend that the Department take the following actions:

- Program personnel should develop and implement a formal participant acceptance process and thoroughly train program staff (and future case managers) on how to review applications for eligibility. All documentation supporting participant eligibility should be retained.
- Program personnel should develop and implement a single comprehensive participant application form for the ADAP and H-COBRA programs. Program personnel should all be knowledgeable of the necessary information to be included in the application and work with participants to ensure that applications are accurately completed.
- Program personnel should conduct semi-annual eligibility recertifications of all participants as required by federal and State program guidelines. In addition, program personnel should review case files periodically to ensure that all participant files contain the required documentation.

**State of Hawaii
 Department of Health
 HIV Care Formula Grants
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2006**

		Questioned Cost
Finding No. 06-03:	Reporting (Material Weakness)	\$ _____ -
Federal Agency:	Department of Health and Human Services ("DHHS")	
CFDA Number and Title:	93.917 – HIV Care Formula Grants	
Award Number and Award Year:	2 X07HA00050-15-00 4/1/05 – 3/31/06	

Finding and Cause and Effect

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

- **Final Progress Report.** The amount of outlays for AIDS/HIV drug assistance was incorrectly reported as \$2,170,460 compared to \$2,106,082 in actual expenditures.
- **Mid-Year Progress Report.** The amount of outlays for AIDS/HIV drug assistance was incorrectly reported as \$1,192,057 compared to \$757,910 in actual expenditures.

The reporting errors were caused by the program not having formalized processes in place to monitor invoices and actual expenditures. Reports appear to be prepared based on budgeted amounts and outdated reports resulting in inaccurate reports submitted to the federal government.

Criteria

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

Recommendation

We recommend that program personnel develop and implement procedures to ensure that accurate and complete financial and performance reports are submitted to the awarding agency. Program personnel responsible for reporting should be provided with adequate training and supervision by management.

**State of Hawaii
 Department of Health
 HIV Care Formula Grants
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2006**

		Questioned Cost
Finding No. 06-04:	Earmarking (Reportable Condition)	\$ <u>149,645</u>
Federal Agency:	Department of Health and Human Services ("DHHS")	
CFDA Number and Title:	93.917 – HIV Care Formula Grants	
Award Number and Award Year:	2 X07HA00050-15-00 4/1/05 – 3/31/06	

Finding and Cause and Effect

During our current year audit, we noted the following instances of noncompliance with earmarking requirements:

- The total amount expended for the Minority AIDS Initiative ("MAI") during the grant period was \$12,734. The amount expended was \$276 less than required by terms of the applicable grant. The \$276 shortfall was caused by the STD/AIDS Prevention Branch not having appropriate procedures in place to monitor and comply with this earmarking requirement
- The total amount expended for women, infants, children and youth during the grant period was \$236,946. The amount expended was \$94,409 less than required by terms of the applicable grant. The shortfall was due to the lack of formal procedures to monitor women, infant, children and youth expenditures.
- The total amount expended for the AIDS Drug Assistance Program ("ADAP") during the grant period was \$2,106,082. The amount expended was \$54,960 less than required by terms of the applicable grant. We noted that the insufficient expenditure was due to the inability to substantiate the amount reported on the Final Progress Report.

Criteria

The criteria for these eligibility requirements are as follows:

- The grant agreement specifies that \$13,010 of the grant funds should be expended for MAI education and outreach services to increase minority participation in ADAP and provide access to primary care and support services.
- Part Four of the March 2006 Compliance Supplement states, "For the purpose of providing health and support services to women, youth, infants, and children with HIV disease, including treatment measures to prevent the prenatal transmission of HIV, a State shall use for each of these populations not less than the percentage of Title II funds in a fiscal year constituted by the ratio of the population involved (women, youth, infants, or children) in the State with AIDS to the general population in the State of individuals with AIDS (42 USC 300ff-21(b)). This information is provided to the State by the Health Resources and Services Administration ("HRSA") in the annual application guidance (Appendix II, Estimated Number/Percent of Women, Infants, and Children Living with AIDS in States and Territories)."

**State of Hawaii
Department of Health
HIV Care Formula Grants
Schedule of Findings and Questioned Costs
Year Ended June 30, 2006**

Per the HRSA application guidance, the percentage of women, infants, children, and youth living with AIDS in Hawaii to the total population with AIDS in Hawaii should be multiplied against the total amount of Ryan White Care Act Title II funds expended for the grant year in determining the required earmark. Therefore, as 10.86% of the total population of people with AIDS in Hawaii are women, infants, children, and youth, the required earmark for the April 1, 2005 through March 31, 2006 grant year was \$331,355.

- A State shall use a portion of the funds awarded to establish a program to provide therapeutics to treat HIV disease or prevent the serious deterioration of health arising from HIV disease in eligible individuals, including measures for the prevention and treatment of opportunistic infections. The amount of this specific earmark for ADAP is provided in the grant agreement (42 USC 300ff-26(a)).

Recommendation

We recommend that program personnel develop and implement procedures to monitor expenditures for specific purposes and ensure compliance with earmarking provisions. Program personnel responsible for monitoring compliance with earmarking provisions should receive adequate training and be supervised by management.

**State of Hawaii
 Department of Health
 Substance Abuse Prevention and Treatment Block Grant
 Special Supplemental Nutrition Program for Women, Infants, and Children
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2006**

		Questioned Cost
Finding No. 06-05:	Equipment Management	\$ _____ -
Federal Agency:	Department of Health and Human Services ("DHHS")	
CFDA Number and Title:	93.959 – Substance Abuse Prevention and Treatment Block Grant	
Award Number and Award Year:	10.557 – Special Supplemental Nutrition Program for Women, Infants, and Children 05B1HISAPT-01 10/1/04 – 9/30/06 7HI700HI7 10/1/04 – 9/30/06	

Finding and Cause and Effect

During our testing of internal controls over equipment management for the programs listed above, we noted that the programs did not update the State's Fixed Asset Inventory System ("FAIS") records to ensure additions, transfers, and disposals were properly reflected in a timely manner. This is a violation of the State's equipment management policies and procedures established in the State Procurement Office's Inventory System User Manual.

The lack of enforcement by management to comply with the State's equipment management policies and procedures resulted in the noncompliance noted above.

Criteria

40CFR31.32 states that a state will use, manage, and dispose of equipment acquired in accordance with the state's laws and procedures.

Per the Inventory System User Manual issued by the State Procurement Office, Chapter 9, at the end of each quarter, but no later than the 15th of the following month, the designated property custodian submits AGS Form 17-A (Detail Inventory of Property) to the Inventory Management Office ("IMO"), reporting all property acquisition and changes to their master inventory balances.

Recommendation

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

**State of Hawaii
 Department of Health
 HIV Care Formula Grant
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2006**

		Questioned Cost
Finding No. 06-06:	Subrecipient Monitoring	\$ _____ -
Federal Agency:	Department of Health and Human Services ("DHHS")	
CFDA Number and Title:	93.917 – HIV Care Formula Grants	
Award Number and Award Year:	2 X07HA00050-15-00 4/1/05 – 3/31/06	
	2 X07HA00050-16-00 4/1/06 – 3/31/07	

Finding and Cause and Effect

During our testing of the Subrecipient Monitoring compliance requirement for the HIV Care Formula Grants, we noted the following instances of noncompliance:

- AIDS Community Care Team ("ACCT"), a subrecipient, has not had an A-133 Single Audit performed since the fiscal year ended June 30, 2002.
- A subrecipient of ACCT was not informed of their noncompliance with program requirements during the subrecipient monitoring process. One of the ways that ACCT ensures compliance with federal regulations is by reviewing the certification forms. In this instance, ACCT documented in its review form that a certification form was missing. However, ACCT failed to notify the subrecipient of this issue and that the subrecipient should take appropriate and timely corrective action.

Criteria

The criteria for subrecipient monitoring are as follows:

- The program is also responsible to ensure that the subrecipients have met the audit requirements of OMB Circular A-133 and that the audits are completed within nine months of the end of the subrecipient's audit period.
- Under OMB Circular A-133, the Department's HIV Care Formula Grants program is responsible for monitoring subrecipient activities to provide reasonable assurance that subrecipients administer federal awards in compliance with federal requirements.

Recommendation

We recommend that the Department ensure that the audit requirements are met for the subrecipient, and that the Department, as the pass-through entity, communicates all errors encountered in a review to the subrecipient. Another member of the pass-through entity should review the results of the monitoring examination and ensure that all findings encountered in examinations are communicated to subrecipients.

**State of Hawaii
 Department of Health
 Centers for Disease Control and Prevention –
 National Cancer Prevention and Control Branch
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2006**

		Questioned Cost
Finding No. 06-07:	Eligibility	\$ _____ –
Federal Agency:	Department of Health and Human Services ("DHHS")	
CFDA Number and Title:	93.283 – Centers for Disease Control and Prevention	
Award Number and Award Year:	U55/CCU922046-04	6/30/05 – 6/29/06

Finding and Cause and Effect

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

- For 1 of the 55 patients selected for testing, the program could not provide the "Statement of Eligibility to Participate" to evidence the eligibility of the individuals. As the program allows the women to self-certify to their eligibility to receive benefits on this form, it is the sole evidence used to verify the eligibility of the women. As we were unable to review the certification, we were unable to obtain evidence to support the eligibility of this individual;
- For 1 out of 55 patient files tested, the "Statement of Eligibility to Participate" did not include the patient's date of birth;
- For 2 out of 55 patient files tested, the "Statement of Eligibility to Participate" was not signed by the patient; and
- For 2 out of 55 patient files tested, the "Statement of Eligibility to Participate" was not signed by a witness.

The matters described above were the result of a lack of thorough review of completed statements by program personnel and service providers.

Failure to ensure that patients meet federal eligibility requirements could result in the rendering of services to an excessive number of patients and inaccurate statistical data being reported in the CAST system.

Criteria

Title 42, *The Public Health and Welfare Chapter 6a. The Public Health Service Preventive Health Measures with Respect to Breast and Cervical Cancers* 42 U.S.C. § 300n, states that to be eligible to

**State of Hawaii
Department of Health
Centers for Disease Control and Prevention –
National Cancer Prevention and Control Branch
Schedule of Findings and Questioned Costs
Year Ended June 30, 2006**

receive assistance from the Program, priority should be given to underserved women, including those who are older, have low incomes, or are members of racial and ethnic minority groups. Program Announcement 02060 further establishes low income women as being at or below 250 percent of the Federal poverty level and uninsured and underinsured. To ensure that the patient meets the low income requirement, patients are required to fill out a "Statement of Eligibility to Participate" Form.

Recommendation

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

**State of Hawaii
 Department of Health
 Administrative Services Office
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2006**

		Questioned Cost
Finding No. 06-08:	Cash Management	\$ _____ -
Federal Agency:	Finding is not specific to a Federal Agency	
CFDA Number and Title:	Finding is not specific to a Federal Agency	
Award Number and Award Year:	N/A	N/A

Finding and Cause and Effect

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

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

Criteria

OMB Circular A-133 states that entities receiving advances of federal funds must minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by the recipient. Circular A-133 also requires that interest earned on advances in excess of \$100 per year should be remitted to the federal government.

The Cash Management Improvement Act (“CMIA”) Regulations & Guidance 31 CFR 205 (Final Rule) states:

“Cash advance (pre-issuance or post-issuance) funding means that a Federal Program Agency transfers the actual amount of Federal funds to a State that will be paid out by the State, in a lump sum, not more than three business days prior to the day the State issues checks or initiates EFT payments. . . State interest liability accrues from the day Federal funds are credited to a State account to the day the State pays out the Federal funds for Federal assistance program purposes.”

Recommendation

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

PART V

Prior Year Findings And Questioned Costs

This section updates the status of findings and questioned costs that were reported in prior years. Finding numbers relate to the sequence reported in the respective year.

**State of Hawaii
 Department of Health
 Financial Statement Finding
 Status of Prior Year Findings and Questioned Costs
 Year Ended June 30, 2006**

Finding No. 05-01: Restatement of Beginning Fund Balance / Net Assets (Material Weakness)

During our prior year financial audit of the State of Hawaii, Department of Health (the "Department"), we identified various accounting errors in the Department's basic financial statements as of and for the year ended June 30, 2004 due to the lack of oversight by fiscal management over the calculation of year end balances. Accordingly, the Department restated its opening net assets attributable to governmental activities and governmental funds fund balances as of July 1, 2004 to correct these errors, which were related to the accounting for cash, capital assets, vouchers and contracts payable, accrued wages and employee benefits payable, accrued vacation, and tobacco settlements receivable.

The following table reconciles the net assets attributable to governmental activities at June 30, 2004, as previously reported, to the opening net assets attributable to governmental activities at July 1, 2004, as restated:

	Governmental Activities
Net assets at June 30, 2004, as previously reported	\$ 145,391,469
Total adjustments to net assets	<u>(1,827,380)</u>
Net assets at July 1, 2004, as restated	<u>\$ 143,564,089</u>

The following table reconciles the governmental funds fund balances at June 30, 2004, as previously reported, to the opening governmental funds fund balances at July 1, 2004, as restated:

	Governmental Funds
Fund balances at June 30, 2004, as previously reported	\$ 98,149,227
Total adjustments to fund balance	<u>(14,231,127)</u>
Fund balances at July 1, 2004, as restated	<u>\$ 83,918,100</u>

We recommended that the Department restate the beginning balances in its basic financial statements for the year ended June 30, 2005 to correct the errors identified. We also recommended that fiscal management of the Department provide greater oversight to ensure that the basic financial statements are prepared and presented in accordance with GAAP.

Status

Resolved. The restated June 30, 2004 balances were properly reported in the fiscal 2005 financial statements. However, a similar financial statement error was noted during our current year audit. See current year Finding No. 06-01.

**State of Hawaii
Department of Health
Financial Statement Finding
Status of Prior Year Findings and Questioned Costs
Year Ended June 30, 2006**

Finding No. 04-01: Fixed Assets-

During the fiscal year 2004 audit, it was recommended that the Department report capital asset additions to the State in a timely manner in accordance with the Department of Accounting and General Services ("DAGS") – State Procurement Office ("SPO") – Inventory Management Branch Training Manual ("State Inventory Manual"). It was also recommended that the Department implement a procedure for property custodians to reconcile quarterly equipment acquisitions in the State's Financial Accounting and Management Information System ("FAMIS") to DAGS computerized inventory reports ("MDB reports") in a timely manner.

Status

Unresolved. During our current year financial audit, we continued to note instances where capital assets were purchased, but not reported in the State's Fixed Asset Inventory System ("FAIS").

**State of Hawaii
Department of Health
HIV Care Formula Grants
Status of Prior Year Findings and Questioned Costs
Year Ended June 30, 2006**

Finding No. 05-02: Eligibility Requirements (Material Weakness)

During our prior year audit, we tested 45 out of 256 patient records and noted the following instances of noncompliance with eligibility requirements for the HIV Care Formula Grants, due to insufficient supporting documents:

- For all 40 patient records tested, the program was unable to provide documentation to evidence the eligibility of the Aids Drug Assistance Program ("ADAP") participants.
- For all 5 patient records tested, the program was unable to provide documentation to evidence the eligibility of H-COBRA participants.
- For 17 out of 40 ADAP patient records tested, the program was unable to provide documentation to evidence that 6-month verbal recertifications were performed.
- For 11 out of 40 ADAP patient records tested, the program was unable to provide documentation to evidence that semi-annual recertifications were performed.

We recommended that the Department take the following actions:

- Program personnel should develop and implement a formal participant acceptance process and thoroughly train program staff (and future case managers) on how to review applications for eligibility. All documentation supporting participant eligibility should be retained.
- Program personnel should develop and implement a single comprehensive participant application form for the ADAP and H-COBRA programs. Program personnel should all be knowledgeable of the necessary information to be included in the application and work with participants to ensure that applications are accurately completed.
- Program personnel should conduct semi-annual eligibility recertifications of all participants as required by federal and State program guidelines. In addition, program personnel should review case files periodically to ensure that all participant files contain the required documentation.

Status

Unresolved. Similar instances were noted during our current year audit. Since the Department is in the process of implementing our recommendation above in conjunction with its implementation of our recommendation in current year Finding No. 06-02, this finding will not carry forward.

**State of Hawaii
Department of Health
HIV Care Formula Grants
Status of Prior Year Findings and Questioned Costs
Year Ended June 30, 2006**

Finding No. 05-03: Reporting (Material Weakness)

During our prior year audit, we noted noncompliance with reporting requirements for the HIV Care Formula Grants due to errors found in the Standard Form ("SF")-269, Final Annual Progress Reports, CARE Act Data Report and ADAP Quarterly Report.

The reporting errors were caused by the program not having formalized processes in place to monitor invoices and actual expenditures. Reports appeared to be prepared based on budgeted amounts and outdated reports resulting in inaccurate reports being submitted to the federal government.

We recommended that program personnel develop and implement procedures to ensure that accurate and complete financial and performance reports are submitted to the awarding agency. Program personnel responsible for reporting should be provided with adequate training and supervision by management.

Status

Unresolved. Similar instances were noted during our current year audit. Since the Department is in the process of implementing our recommendation above in conjunction with its implementation of our recommendation in current year Finding No. 06-03, this finding will not carry forward.

**State of Hawaii
Department of Health
HIV Care Formula Grants
Status of Prior Year Findings and Questioned Costs
Year Ended June 30, 2006**

Finding No. 05-04: Earmarking – Minority AIDS Initiative

During our prior year audit, we noted that the total amount of funds earmarked for the Minority AIDS Initiative (“MAI”) program of \$10,517 was not expended within the grant period. We noted that there was a shortfall of \$492 caused by the STD/AIDS Prevention Branch not having formal procedures in place to monitor and comply with this earmarking requirement.

We recommended that program personnel develop and implement procedures to monitor expenditures for specific purposes and ensure compliance with earmarking provisions. Program personnel responsible for monitoring compliance with earmarking provisions should be provided with adequate training and supervision by management.

Status

Unresolved. A similar instance was noted during our current year audit. Since the Department is in the process of implementing our recommendation above in conjunction with its implementation of our recommendation in current year Finding No. 06-04, this finding will not carry forward.

**State of Hawaii
Department of Health
Centers for Disease Control and Prevention –
National Cancer Prevention and Control Branch
Status of Prior Year Findings and Questioned Costs
Year Ended June 30, 2006**

Finding No. 05-05: Eligibility (Reportable Condition)

During our prior year audit, we were not granted access to documentation, other than self certifications, evidencing verification of income eligibility requirements of participants in the Centers for Disease Control and Prevention program, due to program management's concerns over confidentiality requirements under the Health Insurance Portability and Accountability Act of 1996 ("HIPAA"). Accordingly, we were unable to verify that priority was given to underserved women in accordance with program requirements.

We recommended that program personnel ensure that adequate procedures are in place to verify participant income and ensure that the program is the "payer of last resort" in accordance with federal regulations. We also recommended that program personnel maintain and make available for review, documentation supporting participant eligibility for purposes of audit under OMB Circular A-133.

Status

Resolved. During our current year audit, we obtained confirmation from the CDC that self certifications were sufficient to satisfy the eligibility compliance requirement. However, refer to Finding No. 06-07 for exceptions noted during our current year audit.

**State of Hawaii
Department of Health
Center for Disease Control and Prevention –
National Cancer Prevention and Control Branch
Substance Abuse Prevention and Treatment Block Grant
Capitalization Grants for State Revolving Funds
Special Supplemental Nutrition Program for Women, Infants, and Children
Status of Prior Year Findings and Questioned Costs
Year Ended June 30, 2006**

Finding No. 05-06: Equipment Management (Reportable Condition)

During our testing of internal controls over equipment management for the programs listed above, we noted instances of noncompliance with policies and procedures over equipment management as documented in the State Procurement Office's Inventory System User Manual related to record keeping and safekeeping of property for the Substance Abuse Treatment and Prevention ("SAPT"); Special Supplemental Nutrition Program for Women, Infants, and Children ("WIC"); Capitalization Grants for State Revolving Funds ("CWSRF"); and Centers for Disease Control and Prevention ("NCPC") programs.

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

Status

Resolution ongoing. There were no similar instances noted for the NCPC program in the current year.

Although we noted that current year equipment additions were properly reported to DAGS in FAIS for the CWSRF program, there was an immaterial amount of prior year additions that were not recorded in FAIS.

For the SAPT and WIC programs, we noted similar instances during our current year audit. Since the Department is in the process of implementing our recommendation above in conjunction with its implementation of our recommendation in current year Finding No. 06-05, this finding will not carry forward.

**State of Hawaii
Department of Health
Capitalization Grants for State Revolving Funds
Capitalization Grants for Drinking Water State Revolving Fund
Status of Prior Year Findings and Questioned Costs
Year Ended June 30, 2006**

Finding No. 05-07: Allowable Costs

During our prior year testing of compliance controls over activities allowed and allowable costs related to the CWSRF program and the Capitalization Grant for Drinking Water State Revolving Fund ("DWSRF") program, we noted that Department personnel responsible for reviewing the allowability and allocation of federal expenditures lacked detailed knowledge and experience with the requirements of Office of Management and Budget ("OMB") Circulars A-133 and A-87, due to the personnel focusing more on grant, program, and EPA requirements.

We recommended that the Department ensure that personnel responsible for reviewing and approving federal expenditures are adequately trained and have access to resources to enable them to assess the allowability and allocation of federal expenditures in accordance with OMB Circulars A-133 and A-87.

Status

Resolved. All program personnel were provided access to OMB Circulars A-133 and A-87. All Branch Chiefs that we interviewed appeared to be familiar with Circulars A-133 and A-87 and are reviewing invoices before they are processed. Furthermore, we did not note any unallowable costs in our current year audit.

**State of Hawaii
Department of Health
Center for Disease Control and Prevention –
Public Health Preparedness and Response for Bioterrorism
Status of Prior Year Findings and Questioned Costs
Year Ended June 30, 2006**

Finding No. 05-08: Allowable Costs – Payroll Charges

During our prior year testing of compensation costs for the Public Health Preparedness and Response for Bioterrorism, a subprogram of the Center for Disease Control and Prevention program, we noted one instance where \$3,660.23 was improperly charged to this program. The error was due to the untimely processing of an Employee Personnel Action Report (“EPAR”) to remove an employee from the program, which was initiated by the Department in October 2004, but not processed by the State’s central payroll system until February 2005. The Department corrected the error prior to fiscal year-end via a journal voucher and reimbursed the federal program.

We recommended that the Department ensure that changes to payroll data are made in a timely manner. In addition, payroll expenditures using federal funds should be reviewed for propriety, accuracy and completeness on a regular basis to ensure compliance with OMB Circular A-87.

Status

Resolved. No similar instances were noted for during our current year audit.

**State of Hawaii
Department of Health
Substance Abuse Prevention and Treatment Block Grant
Status of Prior Year Findings and Questioned Costs
Year Ended June 30, 2006**

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

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

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

Status

Unresolved. Similar instances were noted during our current year audit. However, we were informed that the program implemented our recommendation in fiscal year 2007.

**State of Hawaii
Department of Health
Aging Cluster
Center for Disease Control and Prevention –
National Cancer Prevention and Control Branch
Substance Abuse Prevention and Treatment Block Grant
Capitalization Grants for State Revolving Funds
Special Supplemental Nutrition Program for Women, Infants, and Children
Status of Prior Year Findings and Questioned Costs
Year Ended June 30, 2006**

Finding No. 05-10: Cash Management – Timeliness of Disbursements

During our prior year testing of the Department's cash management procedures, we noted several instances where the State Department of Accounting and General Services ("DAGS") did not disburse funds from federal sources within three business days after the Department drew down the funds in accordance with the Cash Management Improvement Act Regulations & Guidance 31 CFR 205 (Final Rule). In general, the time lags were not more than a couple of days after the three-day timeframe. We also noted that the Department was not calculating or remitting any interest earnings attributable to these untimely disbursements. The delays were caused by the State's payment process that requires payments by all State departments to be processed through DAGS resulting in processing delays.

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

Status

Unresolved. Due to the structure of the State's central processing system, this finding will continue to carryforward until there are systematic changes made to streamline the process at the state-wide level. Since the Department is in the process of implementing our recommendation above in conjunction with its implementation of our recommendation in current year Finding No. 06-08, this finding will not carry forward.

**State of Hawaii
Department of Health
Capitalization Grants for State Revolving Funds
Status of Prior Year Findings and Questioned Costs
Year Ended June 30, 2006**

Finding No. 05-11: Earmarking – Earmarking for Administrative Expenses

During our prior year audit of the CWSRF program, we noted that actual administrative expenses incurred for each capitalization grant year were not monitored to ensure that not more than 4 percent of each capitalization grant was used for administrative expenses. Although, we were able to validate that actual administrative expenses did not exceed 4 percent of each capitalization grant, the program did not have a formal policy to monitor compliance with this earmarking requirement.

We recommended that the Department develop a procedure to formally monitor actual administrative expenses incurred for each capitalization grant to be in compliance with the 4 percent ceiling.

Status

Resolved. The program accountant now tracks the 4 percent set-aside as expenditures are incurred. We noted no instances of noncompliance during our current year audit.

**State of Hawaii
Department of Health
Capitalization Grants for Drinking Water State Revolving Fund
Status of Prior Year Findings and Questioned Costs
Year Ended June 30, 2006**

Finding No. 05-12: Earmarking – Earmarking for Local Assistance

During our prior year audit of the DWSRF program, we noted that expenditures of federal funds earmarked for local assistance were being monitored in total as opposed to by capitalization grant year and specific activity. Although, we were able to validate the program's compliance with the local assistance earmarking requirements through substantive testing, the program did not have a formal policy to monitor compliance with this earmarking requirement.

We recommended that the Department develop a procedure to formally monitor expenditures by capitalization grant year and specific activity.

Status

Resolved. The program implemented our recommendation and now tracks earmarking provisions in a timely manner. We noted no instances of noncompliance during our current year audit.

**State of Hawaii
Department of Health
Center for Disease Control and Prevention –
National Cancer Prevention and Control Branch
Status of Prior Year Findings and Questioned Costs
Year Ended June 30, 2006**

Finding No. 05-13: Matching

During our prior year audit of the National Cancer Prevention Center (“NCPC”) program’s compliance with matching requirements, we noted that the program did not formally track donated time and effort from doctors, nurses and professionals that attend Advisory Council meetings. However, we were able to validate that the program complied with the grant-specific matching requirements through a combination of payroll expenditures, contract expenditures, and services donated by the American Cancer Society.

We recommended that the program develop and implement a formal process for monitoring all matching sources, including time and effort donated by doctors, nurses, and other professionals that attend Advisory Council meetings.

Status

Resolved. The program no longer uses the method stated above to calculate the matching funds, and we noted the program met the matching requirements in fiscal year 2006.

**State of Hawaii
Department of Health
HIV Care Formula Grants
Status of Prior Year Findings and Questioned Costs
Year Ended June 30, 2006**

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

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

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

Status

Unresolved. Due to staffing constraints, the program was unable to fully implement their Quality Assurance Plan. The program is continuing to work toward implementation of its plan.

**State of Hawaii
Department of Health
Capitalization Grants for State Revolving Funds
Capitalization Grants for Drinking Water State Revolving Fund
Status of Prior Year Findings and Questioned Costs
Year Ended June 30, 2006**

Finding No. 05-15: Reporting – Reviews of Federal Reports

During our prior year audit of the CWSRF and DWSRF programs' compliance with financial reporting requirements, we noted instances where SF-269 and SF-272 reports were not reviewed in their entirety by the Administrative Services Office ("ASO") prior to submission.

We recommended that the ASO review all SF-269 and SF-272 reporting packages in entirety prior to submission.

Status

Unresolved. During our current year audit, we noted an immaterial error on one of the reports submitted because the report was not reviewed in detail. As the error was clearly immaterial, it is reported in our Internal Control and Business Issues report as Comment No. 06-03. Consequently, this finding will not carry forward.

**State of Hawaii
Department of Health
Substance Abuse Prevention and Treatment Block Grant
Status of Prior Year Findings and Questioned Costs
Year Ended June 30, 2006**

Finding No. 05-16: Reporting – Timeliness of Reporting

During our prior year audit of the SAPT program's compliance with financial reporting requirements, we noted that the annual SF-269 reporting package was submitted 10 days after the 90-day reporting deadline. The late submission was due to the transactions recorded in the State's accounting system not being recorded and/or processed in a timely manner.

We recommended that financial reporting packages are completed, reviewed and submitted to the federal government within the required 90-day timeframe.

Status

Unresolved. A similar instance was noted in the current year. However, as the Department is in the process of implementing our above recommendation in conjunction with Comment No. 06-06 in our Internal Control and Business Issues Report, this finding will not carry forward.

**State of Hawaii
Department of Health
Substance Abuse Prevention and Treatment Block Grant
Status of Prior Year Findings and Questioned Costs
Year Ended June 30, 2006**

Finding No. 05-17: Reporting – Review of Financial Status Reports

During our prior year audit of the SAPT program's compliance with financial reporting requirements, we noted that reviews of financial reports and their related reconciliations to Department financial information were not consistently evidenced.

We recommended that the Department implement a policy for supervisors to formally evidence their reviews and approvals of financial reporting packages and all supporting documents.

Status

Unresolved. In our current year audit, we noted that there was still inconsistent evidence of review. We also noted an immaterial error on one of the reports submitted. As the error is clearly immaterial, it is reported in our Internal Control and Business Issues report as Comment No. 06-06, and this comment will not carryforward.

**State of Hawaii
Department of Health
Substance Abuse Prevention and Treatment Block Grant
Status of Prior Year Findings and Questioned Costs
Year Ended June 30, 2006**

Finding No. 05-18: Subrecipient Monitoring

The Alcohol and Drug Abuse Division ("ADAD") is responsible for performing subrecipient monitoring procedures for the subrecipients of the SAPT program. ADAD's policy is to perform annual site visits and communicate observations and recommendations for improvement identified during site visits by issuing written monitoring reports to subrecipients within 30 days after site visits. During our audit of the SAPT Block Grant program's compliance with subrecipient monitoring requirements, we noted that site visits were being performed. However, due to understaffing of personnel that perform the monitoring and prepare the reports, several written monitoring reports were not distributed to subrecipients within 30 days after the site visits in accordance with ADAD policies.

We recommended that ADAD continue to perform annual site visits for all subrecipients and issue monitoring reports to subrecipients in a timely manner.

Status

Unresolved. During our current year audit, we noted that the program did not consistently follow their internally developed procedures for monitoring. Although it appears that program is monitoring their subrecipients to the extent that the monitoring fulfills the federal compliance requirement, the program is not complying with its internally developed procedures. As such, this is reported in our Internal Control and Business Issues report as Comment No. 06-07, and this comment will not carry forward.

**State of Hawaii
Department of Health
Capitalization Grants for Drinking Water State Revolving Fund
Status of Prior Year Findings and Questioned Costs
Year Ended June 30, 2006**

Finding No. 04-04: Matching

During the fiscal year 2004 audit, it was recommended that the Capitalization Grants for Drinking Water State Revolving Fund (the "Fund") separately calculate, reconcile and track State matching funds expenditures in order to monitor compliance with the federal requirement that State funds spent or set aside equal or exceed federal expenditures.

Status

Resolved. In the current year audit, we noted that the current match amount was met and the program is tracking the expenditures used to meet the matching requirements.

Correction Action Plan

LINDA LINGLE
GOVERNOR OF HAWAII



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

CHIYOME LEINAALA FUKINO, M.D.
DIRECTOR OF HEALTH

In reply, please refer to:
File:

A586

March 28, 2007

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

Dear State Auditor:

Attached is the Department of Health's Correction Action Plan to the findings on the audit report for fiscal year 2006 and comments regarding prior year findings.

We appreciate the opportunity to comment on the audit report.

Sincerely,

A handwritten signature in black ink, appearing to read "Chiyome Leinaala Fukino, M.D.", is written over a faint, larger version of the same signature.

Chiyome Leinaala Fukino, M.D.
Director of Health

Attachment

II. FINANCIAL STATEMENT FINDINGS

Finding No. 06-01: Restatement of Beginning Fund Balance/Net Assets (Material Weakness)

Finding and Cause and Effect

During our current year financial audit of the State of Hawaii, Department of Health (the "Department"), we identified an accounting error in the Department's basic financial statements as of and for the year ended June 30, 2005 due to the lack of oversight by the fiscal management over the calculation of the Deposit Beverage Container Fund's year end vouchers and contracts payable balance and related expenditures for fiscal year 2005. Accordingly, the department restated its opening net assets attributable to governmental activities and governmental funds fund balances as of July 1, 2005 to correct the error.

Corrective Action Plan

The Department has already restated the beginning balances in its basic financial statements for the year ended June 30, 2006 to correct the error identified. The departmental fiscal officer will assist the deposit beverage container program accountant to ensure that year end liabilities are properly accrued.

Person Responsible

Fiscal officer and Program accountant

Anticipated Date of Completion

June 30, 2007

Section III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding No. 06-02 and 05-02: Eligibility Requirements (Material Weakness)

During our current year audit, we tested 30 patient records. Due to the Department maintaining insufficient supporting documents, we noted the following instances of noncompliance with eligibility requirements for the HIV Care Formula Grants:

- For 26 out of 30 patient records tested, the program was unable to provide documentation to evidence the eligibility of the Aids Drug Assistance Program ("ADAP") participants.
- For all 4 patient records tested, the program was unable to provide documentation to evidence the eligibility of H-COBRA participants.

- For 24 out of 30 ADAP patient records tested, the program was unable to provide documentation to evidence that 6-month verbal recertifications were performed.
- For 19 out of 30 ADAP patient records tested, the program was unable to provide documentation to evidence that 12-month semi-annual recertifications were performed.

The program has taken steps to remediate this recurring finding from the prior year (Finding No. 05-02). However, due to the timing of the completion of the fiscal 2005 audit, the program was unable to implement our recommendations and meet the Eligibility requirements in fiscal 2006.

Corrective Action Plan

Between October 2005 and May 2006, the STD/AIDS Prevention Branch (SAPB) changed the way in which eligibility and re-certification are performed in order to improve compliance with Federal DHHS requirements. During this period the following steps were taken: (1) a requirement was added as a condition of participation in ADAP and H-COBRA that individuals be enrolled in the case management program of one of the agencies funded by the state to provide HIV case management services; (2) Initial application for ADAP services and each semi-annual re-certification now require review by a case manager and this review is documented in REGGIE, the statewide case management database; (3) The case management agency is now required to collect and maintain documentation supporting eligibility; (4) In April and May 2006, the agency contracted by the SAPB to provide training to case managers, along with SAPB's own staff, performed training at each of the agencies funded by the state to provide HIV case management services. This training included the process for ADAP application and re-certification, instructions for completing initial and re-certification applications, and documentation requirements.

ADAP staff now document verbal communication with physicians' offices regarding attempts to recertify program participants in a timely manner.

Person Responsible for Corrective Action

HIV Medical Management Services Supervisor/HIV Drug Assistance Program Specialist

Anticipated Date of Completion

Already implemented, completed June 30, 2006

Finding No. 06-03 and 05-03: Reporting (Material Weakness)

Finding and Cause and Effect

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

- **Final Progress Report.** The amount of outlays for AIDS/HIV drug assistance was incorrectly reported as \$2,170,460 compared to \$2,106,082 in actual expenditures.
- **Mid-Year Progress Report.** The amount of outlays for AIDS/HIV drug assistance was incorrectly reported as \$1,192,057 compared to \$757,910 in actual expenditures.

The reporting errors were caused by the program not having formalized processes in place to monitor invoices and actual expenditures. Reports appear to be prepared based on budgeted amounts and outdated reports resulting in inaccurate reports submitted to the federal government.

Correction Action Plan

The program will thoroughly recheck numbers and expenditures that are reported to Centers for Disease Control. In addition, the program will provide necessary training to ensure accurate financial and performance reports are submitted.

Person Responsible for Corrective Action

HIV Medical Management Services Supervisor/Planner

Anticipated Date of Completion

Already implemented, completed August 31, 2006

Finding No. 06-04 and 05-04: Earmarking (Reportable Condition)

Finding and Cause and Effect

During our current year audit, we noted the following instances of noncompliance with earmarking requirements:

- The total amount expended for the Minority AIDS Initiative (“MAI”) during the grant period was \$12,734. The amount expended was \$276 less than required by terms of the applicable grant. The \$276 shortfall was caused by the STD/AIDS

Prevention Branch not having appropriate procedures in place to monitor and comply with this earmarking requirement

- The total amount expended for women, infants, children and youth during the grant period was \$236,946. The amount expended was \$94,409 less than required by terms of the applicable grant. The shortfall was due to the lack of formal procedures to monitor women, infant, children and youth expenditures.
- The total amount expended for the AIDS Drug Assistance Program (“ADAP”) during the grant period was \$2,106,082. The amount expended was \$54,960 less than required by terms of the applicable grant. We noted that the insufficient expenditure was due to the inability to substantiate the amount reported on the Final Progress Report.

Correction Action Plan

The Branch will monitor the expended dollar amounts for the minority AIDS Initiative on a quarterly basis to ensure funds are appropriately spent

The Branch will identify and document the specific funding to be made available for services to women, infants, children and youth and monitor expenditures quarterly to ensure funds are appropriately spent as needed.

The Branch will document the reported AIDS Drug Assistance Program (ADAP) expenditures by creating an Excel file or through the Department’s Data Mart system to substantiate amounts reported to HRSA. The program has the understanding that ADAP funds are made available in each fiscal year but that it is not a requirement to spend them in the fiscal year.

Person Responsible

Planner/Public Health Administrative Officer

Anticipated Date of Completion

April 1, 2007

Finding No. 06-05 and 05-06: Equipment Management

Finding and Cause and Effect

During our testing of internal controls over equipment management for the programs listed above, we noted that the programs did not update the State’s Fixed Asset Inventory System (“FAIS”) records to ensure additions, transfers, and disposals were properly reflected in a timely manner. This is a violation of the State’s equipment management

policies and procedures established in the State Procurement Office's Inventory System User Manual.

The lack of enforcement by management to comply with the State's equipment management policies and procedures resulted in the noncompliance noted above.

Corrective Action Plan

The Department has recently completed and implemented its approved reorganization of the Fiscal Services Section that established a Professional Procurement and Supply Specialist position to manage the departmental inventory. This new position was filled in November 2006. All acquisitions, disposals and transfers of equipment will be monitored by the Procurement and Supply Specialist to ensure all transactions are properly recorded and reconciled periodically. The Specialist will establish new procedures as necessary to enforce and comply with state and federal regulations.

Person Responsible

Procurement and Supply Specialist

Anticipated Date of Completion

June 30, 2007

Finding No. 06-06: Sub recipient Monitoring

Finding and Cause and Effect

During our testing of the Sub recipient Monitoring compliance requirement for the HIV Care Formula Grants, we noted the following instances of noncompliance:

- AIDS Community Care Team ("ACCT"), a sub recipient, has not had an A-133 Single Audit performed since the fiscal year ended June 30, 2002.
- A sub recipient of ACCT was not informed of their noncompliance with program requirements during the sub recipient monitoring process. One of the ways that ACCT ensures compliance with federal regulations is by reviewing the certification forms. In this instance, ACCT documented in its review form that a certification form was missing. However, ACCT failed to notify the sub recipient of this issue and that the sub recipient should take appropriate and timely corrective action.

Corrective Action Plan

The Branch has informed the AIDS Community Care Team (ACCT) of the A-133 Single Audit requirement and ACCT has informed the Branch that the audits for 2003-2006 are

currently being completed. The Branch will follow up with ACCT quarterly until the audit reports are received.

Responsible Person

Planner

Anticipated Date of Completion

Ongoing

Finding No. 06-07 and 05-05: Eligibility

Finding Cause and Effect

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

- For 1 of the 55 patients selected for testing, the program could not provide the "Statement of Eligibility to Participate" to evidence the eligibility of the individuals. As the program allows the women to self-certify to their eligibility to receive benefits on this form, it is the sole evidence used to verify the eligibility of the women. As we were unable to review the certifications, we were unable to obtain evidence to support the eligibility of these individuals;
- For 1 out of 55 patient files tested, the "Statement of Eligibility to Participate" did not include the patient's date of birth;
- For 2 out of 55 patient files tested, the "Statement of Eligibility to Participate" was not signed by the patient; and
- For 2 out of 55 patient files tested, the "Statement of Eligibility to Participate" was not signed by a witness.

The matters described above were the result of a lack of thorough review of completed statements by program personnel and service providers.

Failure to ensure that patients meet federal eligibility requirements could result in the rendering of services to an excessive number of patients and inaccurate statistical data being reported in the CAST system.

Corrective Action Plan

The Centers for Disease Control and Prevention program has met with the federal agency and the auditors to discuss the confidentiality requirements. The two parties have agreed upon the extent of the documentation that would be submitted to the auditors for them to complete their testing as well as to ensure compliances with the HIPPA confidentiality issues. The program will also add specific wording to maintain documents supporting patient eligibility in the scope of services to all BCCCP contracts so the program would have adequate supporting documents to substantiate the participants' eligibility.

Person Responsible for Corrective Action

Program Manager

Anticipated Date of Completion

Completed July 1, 2006

Finding No. 06-08 and 05-10: Cash Management

Finding Cause and Effect

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

Corrective Action Plan

The Department has changed the procedures on how and when the programs request for a drawdown to minimize the time between when the drawdown occurs and when the check is cut. The Department is continuously working with the Department of Accounting and General Services (DAGS) and the state Department of Budget and Finance (B&F) to establish a faster process of depositing and disbursing federal money to ensure compliance with Federal regulations as well as meet the state department's treasury deposit and fiscal accounting responsibilities.

Person Responsible for Corrective Action

Administrative Services Officer and Fiscal Officer

Anticipated Date of Completion

June 30, 2007

Finding 04-01: Fixed Assets

During the fiscal year 2004 audit, it was recommended that the Department report capital asset additions to the State in a timely manner in accordance with the Department of Accounting and General Services (DAGS) – State Procurement Office (SPO) – Inventory Management Branch Training Manual (State Inventory Manual). It was also recommended that the Department implement a procedure for property custodians to reconcile quarterly equipment acquisitions in the State's Financial Accounting and Management Information System (FAMIS) to DAGS computerized inventory reports (MDB reports) in a timely manner.

Corrective Action Plan

See response to Finding No. 06-05 for update and corrective action plan.

Finding 05-09: Allowable Costs-Purchase Requisition Approvals

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

The lack of written approval of purchase requisitions could lead to unauthorized expenditures of federal funds and material financial statement misstatement.

Corrective Action Plan

The Alcohol and Drug Abuse Division (ADAD) has updated their procedures to ensure proper authorization of purchase requisitions.

Person Responsible for Corrective Action

Public Health Administrative Officer

Anticipated Date of Completion

Completed December 31, 2006

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

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

Without a formalized quality management program, the Department is 1) unable to assess the extent to which HIV health services are consistent with the most recent PHS guidelines for the treatment of HIV disease and related opportunistic infections; and 2) cannot effectively and efficiently develop strategies for ensuring that such services are consistent with the guidelines for improvement in the access to and quality of HIV services. The lack of a formalized quality management program could also jeopardize future federal funding for HIV Care programs.

Corrective Action Plan

The Quality Management Plan is under development, partly by the HIV Community Planning Group. The program staff will be attending a HRSA meeting in April 2007 and will receive technical assistance in order to complete the plan.

Person Responsible for Corrective Action

Branch Chief

Anticipated Date of Completion

April 1, 2008

Finding No. 05-15: Reporting-Reviews of Federal Reports

During our audit of the CWSRF and DWSRF programs' compliance with financial reporting requirements, we noted, that due to the lack of a formal review policy, instances where Standard Forms ("SF")-269 and SF-272s were not reviewed in its entirety by the Administrative Services Office ("ASO") prior to submission.

Without thorough review of financial reports prior to submission, there may be inaccurate reports submitted to the federal government.

Corrective Action Plan

The Department's corrective action plan has been enforced. OMB Circular A-133 training was originally scheduled for January 30, 2007. However, due to an unanticipated conflict, the trainers had to reschedule this training to February 16, 2007. See response in the Corrective Action Plan for Internal Control and Business Issues Report for Finding No. 06-03.

Person Responsible for Corrective Action

Fiscal Officer

Anticipated Date of Completion

June 30, 2007

Finding No. 05-16: Report-Timeliness of Reporting

During our audit of the SAPT program's compliance with financial reporting requirements, we noted that the annual SF-269 reporting package was submitted 10 days after the 90-day reporting deadline. The late submission was due to the transactions recorded in the State's accounting system not being recorded and/or processed in a timely manner.

Delinquent reporting could result in the suspension of federal funding for this program.

Corrective Action Plan

The Department's corrective action plan is still effective and in progress. Due to the vacancy of the Accountant V position that was responsible for the corrective action plan, the Fiscal Officer will evaluate the current procedures and make changes as needed. See response in the Corrective Action Plan in the Internal Control and Business Issues Report for Finding No. 06-06.

Person Responsible for Corrective Action

Fiscal Officer

Anticipated Date of Completion

June 30, 2007

Finding No. 05-17: Reporting-Review of Financial Status Reports

During our audit of the SAPT program's compliance with financial reporting requirements, we noted that, due to the lack of a formal policy, financial reports and their

related reconciliations to Department financial information are reviewed and approved, however the review and approval is not consistently evidenced (i.e. date of review and initials/signatures).

Failure to have formalized review procedures could result in inaccurate reporting to the federal government.

Corrective Action Plan

The Fiscal Section of the Department of Health's Administrative Services Office is responsible for preparing and submitting the Financial Status Reports (FSR). This office has updated its procedures to ensure that all FSR's are thoroughly reviewed by the Accountant V and the Chief Accountant prior to submission. See response in the Corrective Action Plan for the Internal Control and Business Issues Report for Finding No. 06-06.

Person Responsible for Corrective Action

Chief Accountant

Anticipated Date of Completion

June 30, 2007

Finding No. 05-18: Sub recipient Monitoring

The Alcohol and Drug Abuse Division ("ADAD") is responsible for performing sub recipient monitoring procedures for the subrecipients of the SAPT program. ADAD's policy is to perform annual site visits and communicate observations and recommendations for improvement identified during site visits by issuing written monitoring reports to subrecipients within 30 days after site visits. During our audit of the SAPT Block Grant program's compliance with sub recipient monitoring requirements, we noted that site visits were being performed. However, due to understaffing of personnel that perform the monitoring and prepare the reports, several written monitoring reports were not distributed to subrecipients within 30 days after the site visits in accordance with ADAD policies.

Untimely issuance of monitoring reports could lead to uncorrected instances of noncompliance identified during site visits.

Corrective Action Plan

The Alcohol and Drug Abuse Division has revised its procedures to ensure proper monitoring of the subrecipients of the SAPT program. The Department's corrective action plan has been enforced. See response in the Corrective Action Plan for Internal Control and Business Issues Report for Finding No. 06-07.

Person Responsible for Corrective Action

Program Manager

Anticipated Date of Completion

June 30, 2007