

*State of Hawaii
Department of
Transportation—
Airports Division*

*Single Audit Report for the
Fiscal Year Ended June 30, 2005*

*Submitted by
The Auditor
State of Hawaii*

**STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION—AIRPORTS DIVISION**

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Auditor
State of Hawaii:

We have audited the financial statements of the Airports Division, Department of Transportation, State of Hawaii ("Airports Division") as of and for the year ended June 30, 2005, and have issued our report thereon dated December 14, 2005. 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 Airports Division's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. 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 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Airports Division's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the management of the Airports Division and the Federal Aviation Administration, U.S. Department of Transportation, and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

December 14, 2005

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER COMPLIANCE APPLICABLE TO A MAJOR FEDERAL AWARD PROGRAM AND COMPLIANCE AND OTHER MATTERS AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Auditor
State of Hawaii:

Internal Control over Compliance

The management of the Airports Division, Department of Transportation, State of Hawaii ("Airports Division") is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Airports Division's internal control over compliance with requirements that could have a direct and material effect on its 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 internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a 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 applicable requirements of laws, regulations, contracts, and grants 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. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Compliance and Other Matters

We have audited the compliance of the Airports Division 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 its major federal program for the year ended June 30, 2005. The Airports Division's major federal program is identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Airports Division's management. Our responsibility is to express an opinion on the Airports Division'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 Airports Division'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 on the Airports Division's compliance with those requirements.

In our opinion, the Airports Division complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2005.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the Airports Division as of and for the year ended June 30, 2005, and have issued our report thereon dated December 14, 2005. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. This schedule is the responsibility of the management of the Airports Division. Such information has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is fairly stated, in all material respects when considered in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the management of the Airports Division and the Federal Aviation Administration, U. S. Department of Transportation, and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

December 14, 2005

**STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION—AIRPORTS DIVISION**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005**

| Federal Grantor/Program Title | Federal CFDA Number | Federal Expenditures |
|--|------------------------------------|---------------------------------|
| U.S. DEPARTMENT OF TRANSPORTATION: | | |
| Federal Aviation Administration—Airport Improvement Program: | 20.106 | |
| 3-15-0000-S6 | | \$ 237,473 |
| 3-15-0002-04 | | 249 |
| 3-15-0004-09 | | 357,925 |
| 3-15-0004-17 | | 1,477 |
| 3-15-0005-42 | | 96,213 |
| 3-15-0005-47 | | 8,674 |
| 3-15-0005-48 | | 29,394 |
| 3-15-0005-49 | | 2,914,927 |
| 3-15-0005-50 | | 54,037 |
| 3-15-0005-51 | | 1,331,156 |
| 3-15-0005-53 | | 379,010 |
| 3-15-0005-58 | | 1,083,037 |
| 3-15-0005-59 | | 4,210 |
| 3-15-0005-60 | | 4,210,689 |
| 3-15-0005-61 | | 1,154,266 |
| 3-15-0005-63 | | 567 |
| 3-15-0005-64 | | 235,274 |
| 3-15-0005-65 | | 4,382 |
| 3-15-0005-69 | | 1,166 |
| 3-15-0005-71 | | 993 |
| 3-15-0006-23 | | 44,123 |
| 3-15-0006-24 | | 20,256 |
| 3-15-0006-26 | | 1,206,541 |
| 3-15-0006-30 | | 2,248,647 |
| 3-15-0006-31 | | 1,086,312 |
| 3-15-0006-33 | | 1,461 |
| 3-15-0006-34 | | 910 |
| 3-15-0006-36 | | 37,732 |
| 3-15-0008-13 | | 1,443,667 |
| 3-15-0008-16 | | 428,793 |
| 3-15-0011-09 | | 359 |
| 3-15-0011-10 | | 2,177 |
| 3-15-0012-07 | | 2,177 |
| 3-15-0012-08 | | 359 |
| | | <hr/> |
| Subtotal (forward) | | 18,628,633 |

(Continued)

**STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION—AIRPORTS DIVISION**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005**

| Federal Grantor/Program Title | Federal CFDA Number | Federal Expenditures |
|--|------------------------------------|---------------------------------|
| U.S. DEPARTMENT OF TRANSPORTATION: | | |
| Federal Aviation Administration—Airport Improvement Program: | 20.106 | |
| (Subtotal forwarded) | | \$18,628,633 |
| 3-15-0013-21 | | 6,116,115 |
| 3-15-0013-26 | | 3,237,892 |
| 3-15-0013-28 | | 1,258 |
| 3-15-0013-30 | | 1,477 |
| 3-15-0013-31 | | 1,937 |
| 3-15-0014-02 | | 2,126,340 |
| 3-15-0014-03 | | 9,000 |
| 3-15-0014-04 | | 845,479 |
| 3-15-0014-05 | | 3,056,333 |
| 3-15-0014-06 | | 1,477 |
| 3-15-0014-07 | | 1,477 |
| 3-15-0018-02 | | 1,460 |
| DTFA08-03-C-50370 | | <u>633,335</u> |
| TOTAL EXPENDITURES | | <u>\$34,662,213</u> |

See note to schedule of expenditures of federal awards.

**STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION—AIRPORTS DIVISION**

**NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005**

1. The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Airports Division and is presented on the accrual 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*.

**STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION—AIRPORTS DIVISION**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2005**

Part I—Summary of Auditors' Results

1. The independent auditors' report on the financial statements expressed an unqualified opinion.
2. No reportable condition in internal control over financial reporting was identified.
3. No instance of noncompliance considered material to the financial statements was disclosed by the audit.
4. No reportable condition in internal control over compliance with requirements applicable to the major federal award program was identified.
5. The independent auditors' report on compliance with requirements applicable to the major federal award program expressed an unqualified opinion.
6. The audit disclosed no findings required to be reported by OMB Circular A-133.
7. The Airports Division's major program was CFDA 20.106, Federal Aviation Administration – Airport Improvement Program.
8. A threshold of \$1,039,866 was used to distinguish between Type A and Type B programs as those terms are defined by OMB Circular A-133.
9. The Airports Division did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

Part II—Financial Statement Findings Section

No matters are reportable.

Part III—Federal Award Findings and Questioned Cost Section

No matters are reportable.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Financial Statement Findings

04-01 INTERNAL CONTROL OVER SMALL PURCHASES

Finding: Deficiencies continue to exist in the implementation of internal controls over small purchases.

Background: A review conducted in fiscal year 2000 by the Airports Division's Audit Section of the small purchases made by the maintenance section of the Honolulu International Airport uncovered significant deficiencies in the design and operation of internal controls over small purchases.

Among the weaknesses identified were the following: Lack of segregation of duties pertaining to the Contract Maintenance Services inspectors; possible parceling of projects, wherein projects with estimated costs in excess of \$25,000 might have been parceled into smaller projects under \$25,000; possible collusion between Airports Division personnel and contractors; lack of proper documentation of the work performed; and a lack of scrutiny of the projects by supervisors.

The information gathered by the Audit Section was turned over to the Department of the Attorney General, which is currently conducting a criminal investigation of the matter.

As a result of the internal control weaknesses noted, in fiscal year 2002, the Airports Division implemented certain procedures that were designed to mitigate such weaknesses.

In the current fiscal year, we tested the Airports Division's compliance with the revised internal control procedures. We found exceptions in all of the 10 sample items selected, wherein not all of the required procedures for the procurement of repairs and maintenance small purchases were adhered to.

Recommendation: Analyze the causes for the noncompliance with the revised internal control procedures and determine whether refinements should be made to the procedures. Also, provide training to the districts on the implementation of the procedures, and enforce adherence to the procedures.

Management's Comments on Current Status: Recommendation has been implemented. Management has reviewed the revised procedures and made refinements as deemed necessary. The revised procedures have been disseminated with training provided. No exceptions to the revised procedures have been noted.

02-01 INTERNAL CONTROLS OVER SMALL PURCHASES

Finding: Deficiencies existed in the design and operation of internal controls over small purchases.

Background: A review conducted by the Airports Division's Audit Unit of the small purchases made by the maintenance section of the Honolulu International Airport uncovered significant deficiencies in the design and operation of the internal controls over small purchases.

Among the weaknesses identified were the following: lack of segregation of duties pertaining to the Contract Maintenance Services Unit inspectors; possible parceling of projects, wherein projects with

estimated costs in excess of \$25,000 might have been parceled into smaller projects under \$25,000; possible collusion between Airports Division personnel and contractors; lack of proper documentation of the work performed; and a lack of scrutiny of the projects by supervisors.

The information gathered by the Audit Unit was turned over to the Department of the Attorney General, which is currently conducting a criminal investigation of the matter.

As a result of the internal control weaknesses noted, the Airports Division implemented certain procedures that are designated to mitigate such weaknesses. We were engaged to review the procedures and to make recommendations for improvement.

Recommendation: Document all of the revisions to the internal control procedures that have been implemented to mitigate the identified weaknesses over small purchases. In addition, test the adherence to the revisions by randomly selecting completed projects and projects in progress throughout the year.

Management's Comments on Current Status: Recommendation has been implemented. See update to finding 04-01.

Federal Award Findings

02-02 FEDERAL GRANTS PROCEDURE MANUAL

Finding: Portions of the Federal Grant Procedures Manual are outdated.

Background: The Federal Grant Procedures Manual ("Manual") outlines the procedures that should be followed in administering federal grants. Due to the numerous requirements that must be adhered to, it is important for the staff to be aware of all of the requirements. The Manual was partially updated when the Airports Division implemented the letter of credit method of drawing down reimbursements from the Federal Aviation Administration beginning in fiscal year 2001. However, not all the relevant sections have since been updated. Accordingly, there appears to be some confusion as to the applicability of certain sections of the Manual.

This finding was reported in a previous year.

Recommendation: Update all sections of the Manual and disseminate information as to the major revisions.

Management's Comments on Current Status: Recommendation has been implemented. The Manual has been updated and disseminated accordingly.

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