

SINGLE AUDIT REPORTS

State of Hawaii  
Department of Transportation  
Harbors Division  
Year Ended June 30, 2008  
With Report of Independent Auditors

Submitted by  
The Auditor  
State of Hawaii

State of Hawaii  
Department of Transportation  
Harbors Division

Single Audit Reports

Year Ended June 30, 2008

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

The Auditor  
State of Hawaii

We have audited the financial statements of the business-type activities of the Harbors Division, Department of Transportation of the State of Hawaii (Harbors Division), as of and for the year ended June 30, 2008, and have issued our report thereon dated May 5, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States 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 Harbors Division's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Harbors Division's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Harbors Division's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency 08-01 described in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

### **Compliance and other matters**

As part of obtaining reasonable assurance about whether Harbor Division'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.

Harbors Division's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Harbors Division's response and accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Office of the Auditor, others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Ernst & Young LLP*

May 5, 2009

## Report 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 business – type activities of the Harbors Division, Department of Transportation of the State of Hawaii (Harbors Division) with the types of compliance requirements described in the US 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, 2008. Harbors Division’s major federal program is 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 its major federal program is the responsibility of Harbors Division’s management. Our responsibility is to express an opinion on Harbors Division’s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; 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 Harbors 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 of Harbors Division’s compliance with those requirements.

In our opinion, Harbors 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, 2008. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 08-03.

## **Internal control over compliance**

The management of Harbors Division 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 Harbors Division's internal control over compliance with the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Harbors Division's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified deficiencies in internal control over compliance that we consider to be significant deficiencies.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 08-02 and 08-03 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

Harbors Division's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Harbor Division's response and, accordingly, we express no opinion on it.

## **Schedule of Expenditures of Federal Awards**

We have audited the financial statements of the business-type activities of the Harbors Division as of and for the year ended June 30, 2008, and have issued our report thereon dated May 5, 2009. Our audit was performed for the purpose of forming an opinion on the Harbors Division's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of an additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. 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, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management, the Office of the Auditor, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Ernst & Young LLP*

June 4, 2009, except for the  
schedule of expenditures of  
federal awards for which the  
date is May 5, 2009

## Supplemental Information



State of Hawaii  
 Department of Transportation  
 Harbors Division

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2008

<b>Federal Grantor/ Pass-through Grantor/ Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Entity Identifying Number</b>	<b>Federal Expenditures</b>
<b>U.S. Department of Transportation – Federal Highways Administration:</b>			
Pass-through from State of Hawaii Department of Transportation – Highways Division Highway Planning and Construction	20.205	FB-0300	\$ 24,000
<i>Total U.S. Department of Transportation</i>			<u>24,000</u>
<b>U.S. Department of Homeland Security</b>			
Port Security Grant Program	97.056		741,206
<i>Total Department of Homeland Security</i>			<u>741,206</u>
<b>Total Expenditures of Federal Awards</b>			<u><u>\$ 765,206</u></u>

*The accompanying note is an integral part of this schedule.*

State of Hawaii  
Department of Transportation  
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Note to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2008

**1. Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Harbors 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  
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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2008

**Part I – Summary of Auditor’s Results**

**Financial Statement Section**

Type of auditor’s report issued (unqualified, qualified, adverse, or disclaimer):

Unqualified

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Internal control over financial reporting:

Material weakness(es) identified?	_____yes	_____X___no
Significant deficiency(ies) identified that are not considered to be material weaknesses?	_____X___yes	_____none reported
Noncompliance material to financial statements noted?	_____yes	_____X___no

**Federal Awards Section**

Internal control over major programs:

Material weakness(es) identified?	_____yes	_____X___no
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	_____X___yes	_____none reported

Type of auditor’s report on compliance for major programs (unqualified, qualified, adverse, or disclaimer):

Unqualified

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Any audit findings disclosed that are required to be reported in accordance with section .510(a) Circular A-133?

\_\_\_\_\_X\_\_\_yes                      \_\_\_\_\_no

State of Hawaii  
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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2008

**Part I – Summary of Auditor’s Results (continued)**

**Federal Awards Section (continued)**

Identification of major program:

<b>CFDA Number</b>	<b>Name of Federal Program or Cluster</b>
97.056	Port Security Grant Program

Dollar threshold used to distinguish between  
Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee? \_\_\_\_\_yes      \_\_\_\_\_Xno

State of Hawaii  
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Schedule of Findings and Questioned Costs

Year Ended June 30, 2008

**Part II - Financial Statement Findings Section**

This section identifies significant deficiencies, material weaknesses, fraud, illegal acts, violations of provisions of contracts and grant agreements, and abuse related to the financial statements for which *Government Auditing Standards* require reporting in a Circular A-133 audit.

**08-01**

Criteria or specific requirement:

Management should have a financial statement close process that produces financial statements that present, in all material respects, the financial position, changes in financial position and cash flows in conformity with U.S. generally accepted accounting principles.

Condition:

Subsequent to the closing of the accounting records, a number of adjustments to the financial statements were identified by management as well as by the auditors.

Context

The adjustments identified by management were the result of the accounting personnel updating the account balances and activity in preparation for the audit subsequent to the close of the fiscal year records. The adjustments identified by the auditors were the result of the audit procedures performed.

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Schedule of Findings and Questioned Costs

Year Ended June 30, 2008

**Part II - Financial Statement Findings Section (continued)**

Effect:

The significant adjustments were recorded by management in the financial statements for the year ended June 30, 2008.

Cause:

The adjustments were the result of a change in accounting personnel during the year and reconciliations of account balances not being performed timely or prior to Harbors' year end.

Recommendation:

Account reconciliations and the necessary management review procedures on the account balances and financial statements should be done before the records are closed for the year and in preparation for the audit.

Views of responsible officials and corrective actions:

The division completed its reorganization of the Fiscal Office and new supervisory accounting personnel, including the Fiscal Officer, were in place for only a few months prior to the closing process of the accounting records. We expect that the experience gained over the past year will result in improvements in the review and preparation of detailed schedules for subsequent financial audits.

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Schedule of Findings and Questioned Costs

Year Ended June 30, 2008

**Part III—Federal Award Findings and Questioned Costs Section**

This section identifies the audit findings required to be reported by Circular A-133 section .510(a), as well as any abuse findings involving federal awards that are material to a major program.

**08-02**

Federal program information:

97.056 – Department of Homeland Security – Port Security Grant Program

DTSA20-3-G-01153 and HSTS04-04-G-GPS506/07

Criteria or specific requirement (including statutory, regulatory or other citation):

Sections .300(b) and (c) of OMB Circular A-133 requires that the auditee shall:

- (1) Maintain internal control over federal programs that provide reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations and the provisions of contracts or grant agreements that could have a material effect on each of its programs;
- (2) Comply with laws, regulations and the provisions of contracts or grant agreements related to each of its federal programs

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Schedule of Findings and Questioned Costs

Year Ended June 30, 2008

**Part III—Federal Award Findings and Questioned Costs Section (continued)**

**08-02 (continued)**

Condition:

The Grants Manager has the knowledge of the grant program and is responsible for reviewing and approving expenditures to ensure that the expenditures are allowable and in accordance with the program requirements. The Grants Manager also prepares the required reports to the granting agency including the requests for reimbursement.

Although the disbursements were reviewed through Harbors' routine approval process, the Grants Manager did not review the grant expenditures prior to disbursement and did not maintain support for the information included in the reports to the granting agency. The requests for reimbursement were also not reviewed prior to submission to make sure the disbursements were allowable and for an allowable activity.

Questioned costs:

\$5,054.37



State of Hawaii  
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Schedule of Findings and Questioned Costs

Year Ended June 30, 2008

**Part III—Federal Award Findings and Questioned Costs Section (continued)**

**08-02 (continued)**

Context:

The four expenditures tested, which totaled \$652,290, were reviewed and approved before the expenditure was made as part of the Harbors Division's normal cash disbursement process; however, the Grants Manager did not review the expenditures prior to the amount being paid. There were only eight expenditures of federal funds, which totaled \$741,206, as the remaining expenditures were paid for with state funds.

The Grants Manager reviewed the expenditures when gathering the information to prepare the periodic reports and requests for reimbursement. Three reimbursement requests were submitted by the Harbors Division during fiscal year 2008. The information to support the amounts in the reports (mainly the contractor invoices) was not maintained to show how the amounts in the requests were determined and the reports were not reviewed by someone other than the Grants Manager who prepared the reports.

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Schedule of Findings and Questioned Costs

Year Ended June 30, 2008

**Part III—Federal Award Findings and Questioned Costs Section (continued)**

**08-02 (continued)**

Effect:

Amounts could have been expended and requested for reimbursement that was not allowable or appropriate per the grant agreement. Based on the testing performed of the limited number of expenditures, we did not note any unallowable costs. Additionally, the amounts included in the reports and the reimbursement requests could be recreated based on the available information in the general ledger and the contractor invoices. However, in one of the three reimbursement requests, the request included the retainage amount that was deducted from the payment made to the vendor. As a result, Harbors Division was advanced \$5,054.37 for costs that were not yet paid. The amount will be paid once Harbors Division remits the retainage amount to the contractor.

Cause:

The Grants Manager does not have written policies and procedures for the administration of the grant program. The reimbursement requests were not reviewed prior to submission and the request was not compared to the supporting documentation or the contractor's invoices.

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Schedule of Findings and Questioned Costs

Year Ended June 30, 2008

**Part III—Federal Award Findings and Questioned Costs Section (continued)**

**08-02 (continued)**

Recommendation:

Written policies and procedures should be developed to provide sufficient guidance on the OMB Circular requirements and procedures, such that the appropriate controls are designed and operating effectively and the compliance requirements for each grant program are met. Additionally, procedures should also include a review process prior to the submission of any requests for reimbursement or reports and the maintenance of the supporting documentation used to prepare the reimbursement requests.

Views of responsible officials and corrective actions:

The division completed its reorganization of the Fiscal Office and new supervisory accounting personnel, including the Fiscal Officer, were in place for only a few months prior to the closing process of the accounting records. We expect that the experience gained over the past year will result in improvements in the review and preparation of detailed schedules for subsequent financial audits.

An assessment of our current procedures and staff resources available for the management of the federal grant program will also be done as well as the development of written procedures to provide guidance to staff.

State of Hawaii  
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Schedule of Findings and Questioned Costs

Year Ended June 30, 2008

**Part III—Federal Award Findings and Questioned Costs Section (continued)**

**08-03**

Federal program information:

97.056 – Department of Homeland Security - Port Security Grant Program

DTSA20-3-G-01153 and HSTS04-04-G-GPS506/07

Criteria or specific requirement (including statutory, regulatory or other citation):

OMB Circular A-102 section \_32 requires that equipment be used in the program for which it was acquired, that equipment records be maintained and that a physical inventory be taken at least once every two years and reconciled to the equipment records unless state laws and procedures note otherwise.

Condition:

The grant program includes the acquisition of crash barrier gates and surveillance systems for enhanced harbors security. Proper tracking of the equipment purchased was not maintained on an individual equipment basis. The equipment purchased with federal funds was identified but as a total amount.

Questioned costs:

None

State of Hawaii  
Department of Transportation  
Harbors Division

Schedule of Findings and Questioned Costs

Year Ended June 30, 2008

**Part III—Federal Award Findings and Questioned Costs Section (continued)**

**08-03 (continued)**

Context:

Equipment was purchased using a combination of federal and state funds, which made it difficult to identify exactly which items were purchased with federal or state funds. As a result, the purchased equipment was not tracked individually to include the quantity acquired, acquisition date, acquisition cost, useful life or date placed in service, if applicable. Specific invoices, which were paid for using federal funds, were capitalized and identified (in total by project) in the Harbors Division's records as assets acquired using federal funds.

Effect:

The equipment was recorded in total and not by individual item making it difficult for the Harbors Division to identify the individual pieces of equipment that was acquired with federal funds.

Cause:

The monthly invoices from the contractor did not separate the cost for the equipment from the cost of the other services provided by the contractor. However, we noted that an invoice to the contractor from the equipment supplier, noted the type, quantity and cost of equipment provided to the Harbors Division. This information could be used to identify the equipment items purchased with federal funds.

State of Hawaii  
Department of Transportation  
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Schedule of Findings and Questioned Costs

Year Ended June 30, 2008

**Part III—Federal Award Findings and Questioned Costs Section (continued)**

**08-03 (continued)**

Recommendation:

Policies and procedures should be developed to track the equipment acquired with federal funds in sufficient detail. For example, each security camera, which includes all of the components required for the security camera should be accounted for as opposed to an amount for all security cameras. Such a list (including quantity, acquisition date, acquisition cost, useful life, date placed in service, etc.) will allow for the compliance with OMB Circular A-102 requirements, which includes the performance of an inventory of the equipment. Additionally, the contractor should also be requested to provide, in sufficient detail, a breakdown of the equipment purchased from the services provided on the monthly invoices. If a breakdown is provided, then it should be used to create the individual listing of the equipment purchased using federal funds.

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Department of Transportation  
Harbors Division

Schedule of Findings and Questioned Costs

Year Ended June 30, 2008

**Part III—Federal Award Findings and Questioned Costs Section (continued)**

**08-03 (continued)**

Views of responsible officials and corrective actions:

An assessment of our current procedures and staff resources available for the management of the federal grant program will also be done as well as the development of written procedures to provide guidance to staff.

It should be noted that the division:

- maintains appropriate internal control over expenditures of funds and complies with State of Hawaii practices and procedures that govern expenditures and the procurement of goods and services;
- conducts an annual physical inventory of its equipment and the information obtained from the inventory is reconciled with the division's equipment records; and
- requires that contractors provide, as a standard provision of contracts, "Final As-Built" schematic drawings that reflect the location, placement and quantity of the equipment installed by said contractors. The schematic drawings are used by the division to document and account for installed equipment.