



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

(An Enterprise Fund of the State of Hawaii)

Single Audit Reports

Year ended June 30, 2010

(With Independent Auditors' Report Thereon)

Submitted by

**THE AUDITOR
STATE OF HAWAII**

DEPARTMENT OF TRANSPORTATION
AIRPORTS DIVISION
STATE OF HAWAII
(An Enterprise Fund of the State of Hawaii)

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

The Auditor
State of Hawaii:

We have audited the financial statements of the Airports Division, Department of Transportation, State of Hawaii (an enterprise fund of the State of Hawaii) (the Airports Division) as of and for the year ended June 30, 2010, and have issued our report thereon dated July 28, 2011. 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 as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Airports Division's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Airports Division's internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of 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 internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 grant agreements, including applicable provisions of the Hawaii Public Procurement Code (Chapter 103D, Hawaii Revised Statutes) and procurement rules, directives, and circulars, 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*.

This report is intended solely for the information and use of the Auditor, State of Hawaii, management of the Airports Division, and federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

July 28, 2011



KPMG LLP
PO Box 4150
Honolulu, HI 96812-4150

**Independent Auditors' Report on Compliance with Requirements That Could Have
a Direct and Material Effect on 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 Airports Division's, Department of Transportation, State of Hawaii (an enterprise fund of the State of Hawaii) (the Airports Division), compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. The Airports Division's major federal programs are 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 Nonprofit 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 could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed 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 items 2010-01, 2010-02, and 2010-03.

Internal Control over Compliance

Management of the Airports 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 the Airports Division's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the 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, 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 the Airports Division's internal control over compliance.

A deficiency in an entity's internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the Airports Division as of and for the year ended June 30, 2010, and have issued our report thereon dated July 28, 2011. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of 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.

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

This report is intended solely for the information and use of the Auditor, State of Hawaii, management of the Airports Division, and federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

July 28, 2011

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

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Schedule of Expenditures of Federal Awards

Year ended June 30, 2010

<u>Federal grantor/program title</u>	<u>CFDA number</u>	<u>Federal expenditures</u>
U.S. Department of Transportation:		
Federal Aviation Administration – Airport Improvement Program:	20.106	
3-15-0000-02		\$ 163,141
3-15-0000-03		290,942
3-15-0004-26		805,095
3-15-0004-29		12,503
3-15-0004-31		1,367,623
3-15-0004-32		180
3-15-0004-33		180
3-15-0005-86		168,161
3-15-0005-87		633,750
3-15-0005-89		259,290
3-15-0005-91		223,072
3-15-0005-92		870
3-15-0005-93		704,998
3-15-0005-94		1,449,384
3-15-0005-95		6,411,872
3-15-0005-96		680,175
3-15-0005-97		416,881
3-15-0005-98		2,687,586
3-15-0006-42		180,330
3-15-0006-44		1,070
3-15-0006-46 (ARRA)		12,288,072
3-15-0006-48		1,661
3-15-0008-26		29,947
3-15-0008-29		1,329,717
3-15-0008-32		252
3-15-0011-14		472,347
3-15-0011-15		125,231
3-15-0012-10		549,286
3-15-0013-34		62,603
3-15-0013-36		303,952
3-15-0013-38		2,677,439
3-15-0013-41		962
3-15-0014-08		2,167,663
3-15-0014-10		3,691,029
DTFA08-06-C-50533		721,919
DTFA08-08-C-50606		358
Total CFDA 20.106		<u>40,879,541</u>

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Schedule of Expenditures of Federal Awards

Year ended June 30, 2010

<u>Federal grantor/program title</u>	<u>CFDA number</u>	<u>Federal expenditures</u>
U.S. Department of Homeland Security:		
Law Enforcement Officer Reimbursement Agreement Program:	97.090	
HSTS0208HSLR078		\$ 784,128
HSTS0208HSLR321		155,501
HSTS0208HSLR087		127,030
HSTS0208HSLR079		156,326
HSTS0208HSLR082		174,178
HSTS0208HSLR320		108,974
HSTS0208HSLR327		115,448
HSTS0208HSLR093		<u>81,570</u>
Total CFDA 97.090		1,703,155
Transportation Security Administration – Airport Checked Baggage Inspection System Program:	97.117	
HSTS04-09-H-REC158 (ARRA)		2,447,432
National Explosives Detection Canine Team Program:	97.072	
D TSA20-03-H-01000		233,836
Federal Emergency Management Agency – Wildland Firefighting Activity:	N/A	
FEMA-2834-FM-HI		19,028
Transportation Security Administration – Installation and Maintenance of Closed Circuit Televisions:	N/A	
HSTS02-06-A-AOP248		301,911
HSTS04-06-A-DEP206		711,477
DOTA-06-008		<u>50,000</u>
Total federal expenditures		<u>\$ 46,346,380</u>

See accompanying independent auditors' report on compliance with requirements that could have a direct and material effect on each major program and on internal control over compliance in accordance with OMB Circular A-133 and notes to schedule of expenditures of federal awards.

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Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2010

(1) General

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Airports Division, Department of Transportation, State of Hawaii. The information in this schedule is presented in accordance with the requirements of U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*.

(2) Basis of Accounting

The accompanying schedule is prepared on the accrual basis of accounting.

(3) Relationship to Federal Financial Reports

Amounts reported in the accompanying schedule agree in all material respects with the amounts reported in the related federal financial reports.

**DEPARTMENT OF TRANSPORTATION
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Schedule of Findings and Questioned Costs
Year ended June 30, 2010

(1) Summary of Auditors' Results

- (a) The type of report issued on the financial statements: **Unqualified opinion**
- (b) Significant deficiencies in internal control disclosed by the audit of the financial statements: **None reported**

Material weaknesses: **None noted**

- (c) Noncompliance that is material to the financial statements: **None noted**
- (d) Significant deficiencies in internal control over major program: **None reported**

Material weaknesses: **None noted**

- (e) The type of report issued on compliance for major program: **Unqualified opinion**
- (f) Any audit findings that are required to be reported under Section 510(a) of OMB Circular A-133: **Yes, see items 2010-01, 2010-02, and 2010-03**
- (g) Major programs:

CFDA No. 20.106 – U.S. Department of Transportation – Federal Aviation Administration – Airport Improvement Program

CFDA No. 97.117 – U.S. Department of Homeland Security – Transportation Security Administration – Airport Checked Baggage Inspection System Program

CFDA No. 97.090 – U.S. Department of Homeland Security – Law Enforcement Officer Reimbursement Agreement Program

- (h) Dollar threshold used to distinguish between Type A and Type B programs: **\$1,390,391**
- (i) Auditee qualified as a low risk auditee under Section 530 of OMB Circular A-133: **Yes**

(2) Findings Relating to the Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

None noted

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Schedule of Findings and Questioned Costs

Year ended June 30, 2010

(3) Findings and Questioned Costs Relating to Federal Awards

2010-01 – Reporting – Requests for Reimbursement

Information on Federal Programs

U.S. Department of Homeland Security – Law Enforcement Officer Reimbursement Agreement Program – CFDA No. 97.090

Federal Awards Nos.:

HSTS0208HSLR078
HSTS0208HSLR321
HSTS0208HSLR087
HSTS0208HSLR079
HSTS0208HSLR082
HSTS0208HSLR320
HSTS0208HSLR327
HSTS0208HSLR093

Award Years: October 1, 2007 to September 30, 2012

Specific Requirements/Criteria

In accordance with the U.S. Department of Homeland Security Law Enforcement Officer Reimbursement Agreement Program Award, the Request for Reimbursement (SF 270) forms should be submitted by the 30th day of the month following the period of performance. In order for the SF 270 to be submitted, the invoice must have been properly approved for payment and the related Award Modification must be signed by a contracting Transportation Security Administration officer. The SF 270 submission deadline is then 30 days from the latter of the date of invoice approval or the date of the signed Award Modification.

Condition

Out of a sample of 25 SF 270 forms, we identified 15 instances where the Law Enforcement Officer Reimbursement Agreement Program did not submit the forms timely.

Out of a sample of 25 SF 270 forms, we identified 9 instances where the Law Enforcement Officer Reimbursement Agreement Program at the Hilo International Airport was unable to provide the related Award Modifications to determine the submission deadline.

Cause

The above condition was primarily caused by a lack of management oversight and the lack of retention of Award Modifications by the Law Enforcement Officer Reimbursement Agreement Program managers.

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Year ended June 30, 2010

Effect

By failing to submit the required SF 270 forms on a timely basis, the Law Enforcement Officer Reimbursement Agreement Program is not in compliance with the terms of the award agreement between itself and the U.S. Department of Homeland Security and also jeopardizes its ability to receive the reimbursement payments from the U.S. Department of Homeland Security.

The absence of the Award Modifications results in a lack of evidence to support the submission deadline of the SF 270 forms.

Questioned Costs

None

Systemic or Isolated

Systemic

Recommendation

We recommend that the Law Enforcement Officer Reimbursement Agreement Program Managers ensure that the Award Modifications are retained.

Views of Responsible Officials and Planned Corrective Action

The Airports Division will immediately enforce an action plan to ensure the recommendation is implemented by the responsible Airport District personnel and Airports Operations Officer.

2010-02 – Reporting – Annual Federal Financial Report

Information on Federal Programs

U.S. Department of Homeland Security – Law Enforcement Officer Reimbursement Agreement Program – CFDA No. 97.090

Federal Awards Nos.:

HSTS0208HSLR078
HSTS0208HSLR321
HSTS0208HSLR087
HSTS0208HSLR079
HSTS0208HSLR082
HSTS0208HSLR320
HSTS0208HSLR327
HSTS0208HSLR093

Award Years: October 1, 2007 to September 30, 2012

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Year ended June 30, 2010

Specific Requirements/Criteria

In accordance with the U.S. Department of Homeland Security Law Enforcement Officer Reimbursement Agreement Program Award, the Annual Federal Financial Report (SF 425) should be submitted annually 90 days after September 30th, the end of the funding period.

Condition

Out of a sample of 4 Annual Federal Financial Reports, we identified 4 instances where the Airports Division's Law Enforcement Officer Reimbursement Agreement Program did not submit the reports timely.

Cause

The above condition was primarily caused by a lack of management oversight.

Effect

By failing to submit the required Annual Federal Financial Reports on a timely basis, the Airports Division's Law Enforcement Officer Reimbursement Agreement Program is not in compliance with the terms of the award agreement between itself and the U.S. Department of Homeland Security.

Questioned Costs

None

Systemic or Isolated

Systemic

Recommendation

We recommend that the Airports Division's Law Enforcement Officer Reimbursement Agreement Program ensures that all required federal financial reports are submitted to the respective federal granting agency within the prescribed deadlines and the Airport Security Managers monitor the submission of those reports.

Views of Responsible Officials and Planned Corrective Action

The Airports Division will immediately enforce an action plan to ensure the recommendation is implemented by the responsible Airport District personnel and Airports Operations Officer.

**DEPARTMENT OF TRANSPORTATION
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Schedule of Findings and Questioned Costs

Year ended June 30, 2010

2010-03 – Reporting – Monthly Project Status Reports and Quarterly Reports

Information on the Federal Program

U.S. Department of Homeland Security – Transportation Security Administration – Airport Checked Baggage Inspection System Program – CFDA No. 97.117
Federal Award No.: HSTS04-09-H-REC 158

Award Years: May 1, 2009 to May 31, 2011

Specific Requirements/Criteria

In accordance with the U.S. Department of Homeland Security Transportation Security Administration – Airport Checked Baggage Inspection System Program Award, the monthly milestone/progress status report is due every month within 10 days after month-end. Quarterly reports on the use of Recovery Act funds are also due within 10 days after quarter-end.

Condition

Out of a sample of 12 monthly milestone/progress status reports, we identified 6 instances where the Transportation Security Administration – Airport Checked Baggage Inspection System Program did not submit the reports within the prescribed deadlines.

Out of a sample of 4 Quarterly Federal Financial Reports, we identified 1 instance where the Transportation Security Administration – Airport Checked Baggage Inspection System Program did not submit the report within the prescribed deadline.

Cause

The above condition was primarily caused by a lack of management oversight.

Effect

By failing to submit the required monthly milestone/progress status reports and the Quarterly Federal Financial Report on a timely basis, the Airports Division's Transportation Security Administration – Airport Checked Baggage Inspection System is not in compliance with the terms of the award agreement between itself and the U.S. Department of Homeland Security, and also jeopardizes its ability to receive the reimbursement payments from the U.S. Department of Homeland Security.

Questioned Costs

None

**DEPARTMENT OF TRANSPORTATION
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Schedule of Findings and Questioned Costs
Year ended June 30, 2010

Systemic or Isolated

Systemic

Recommendation

We recommend that the Airports Division's Transportation Security Administration – Airport Checked Baggage Inspection System Program ensures that all required federal financial reports are submitted to the respective federal granting agency within the prescribed deadlines and the program managers monitor the submission of those reports.

Views of Responsible Officials and Planned Corrective Action

The Airports Division will immediately enforce an action plan to ensure the recommendation is implemented by the responsible Airport District personnel and Airports Operations Officer.