



KOBAYASHI, KANETOKU, DOI, LUM & YASUDA CPAs LLC

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

Single Audit Reports

Year Ended June 30, 2010

Submitted by  
**THE AUDITOR**  
STATE OF HAWAII

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

**Single Audit Reports**

**Year Ended June 30, 2010**

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**Section I**  
**Introduction**



## KOBAYASHI, KANETOKU, DOI, LUM & YASUDA CPAs LLC

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August 4, 2011

The Auditor  
State of Hawaii:

We have completed our audit of the financial statements of the Harbors Division, Department of Transportation, State of Hawaii (an enterprise fund of the State of Hawaii) (the Harbors Division), as of and for the year ended June 30, 2010. We have also audited the Harbors Division's compliance with requirements applicable to its major federal financial assistance program. We submit herein our reports pertaining to our audit of the Harbors Division's financial statements and federal financial assistance program.

The audit objective and scope of our audit were as follows.

### **AUDIT OBJECTIVES**

1. To provide an opinion on the fair presentation of the Harbors Division's financial statements and the schedule of expenditures of federal awards as of and for the year ended June 30, 2010 in accordance with accounting principles generally accepted in the United States of America. Our independent auditors' report, which expressed an unqualified opinion on the Harbors Division's financial statements, is issued under separate cover.
2. To consider the Harbors Division's internal control over financing reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements.
3. To perform tests of the Harbors Division's compliance with certain provisions, laws, regulations, contracts, and grant agreements that could have a direct and material effect on the determination of financial statement amounts.
4. To consider the Harbors Division'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 internal control over compliance.
5. To provide an opinion on the Harbors Division's compliance with applicable laws, regulations, contracts, and grants that could have a direct and material effect on its major federal program.

## SCOPE OF AUDIT

We performed an audit of the Harbors Division's financial statements and schedule of expenditures of federal awards as of and for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, as adopted by the American Institute of Certified Public Accountants, the standards for financial and compliance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

## ORGANIZATION OF REPORT

Our report is organized into three sections as follows:

Section I, entitled "Introduction," describes the objectives and scope of our financial audit and the organization and contents of this report.

Section II, entitled "Compliance and Internal Control over Financial Reporting," contains our report on the Harbors Division's internal control over financial reporting and on compliance and other matters based upon our audit of the Harbors Division's financial statements.

Section III, entitled "Compliance and Internal Control over Federal Awards," contains our report on the Harbors Division's compliance and internal control over federal awards in accordance with OMB Circular A-133, a schedule of expenditures of federal awards, and a schedule of findings and questioned costs.

We would like to take this opportunity to express our appreciation to the personnel of the Harbors Division for the cooperation and assistance extended to us during our audit. We will be pleased to discuss any questions that you or your associates may have regarding our findings and recommendations.

Sincerely,

*Kobayashi, Kanako, Sai. Lemo Yano CPAs LLC*

## **Section II**

# **Compliance and Internal Control over Financial Reporting**



**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 Harbors Division, Department of Transportation, State of Hawaii (an enterprise fund of the State of Hawaii) (the Harbors Division), as of and for the year ended June 30, 2010, and have issued our report thereon dated August 4, 2011. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the Harbors Division's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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.

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

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, 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 Harbors 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 statements 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 Harbors Division, and federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

*Kobayashi, Kaitoko, Aoi, Lano & Yano CPAs LLC*

Honolulu, Hawaii  
August 4, 2011



## **Section III**

# **Compliance and Internal Control over Federal Awards**



**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 Harbors Division, Department of Transportation, State of Hawaii's (an enterprise fund of the State of Hawaii) (the Harbors Division) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the Harbors Division's major federal program for the year ended June 30, 2010. The Harbors 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 Harbors Division's management. Our responsibility is to express an opinion on the 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 of America; the standards applicable to the 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 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 the Harbors Division's compliance with those requirements.

In our opinion, the Harbors Division complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program 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 Appendix 1 to the accompanying schedule of findings and questioned costs as Findings 10-01 and 10-02.

### **Internal Control over Compliance**

Management of the Harbors 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 Harbors 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 Harbors Division's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or 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. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in Appendix 1 to the accompanying schedule of findings and questioned costs as Findings 10-01 and 10-02. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The Harbors Division's responses to the findings identified in our audit are described in Appendix 1 to the accompanying schedule of findings and questioned costs. We did not audit the Harbors Division's responses and, accordingly, we express no opinion on the responses.

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

We have audited the financial statements of the Harbors Division as of and for the year ended June 30, 2010, and have issued our report thereon dated August 4, 2011. Our audit was performed for the purpose of forming an opinion on the Harbors Division's 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.

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

*Kobayashi, Kaneko, Aoi, Lano & Yano CPAs LLC*

Honolulu, Hawaii  
August 4, 2011

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

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2010

<u>Federal/Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Award Number</u>	<u>Federal Expenditures</u>
<b>U.S. Department of Homeland Security</b>			
Port Security Grant Program	97.056	2006-GB-T6-0077 HSTS04-04-G-GPS507	\$ 477,614 40,520
<b>Total Expenditures of Federal Awards</b>			<u><u>\$ 518,134</u></u>

See accompanying 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.

**HARBORS DIVISION**  
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**Notes to Schedule of Expenditures of Federal Awards**

**Year Ended June 30, 2010**

**1. Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the 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*.

**2. Relationship to Financial Statements**

Actual expenditures related to the major program have been reconciled to the accounting records underlying the Harbors Division's financial statements.

**HARBORS DIVISION  
DEPARTMENT OF TRANSPORTATION  
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**Schedule of Findings and Questioned Costs**

**Year Ended June 30, 2010**

**(1) Summary of Auditors' Results**

*Financial Statements*

- (a) The independent auditors' report expressed an unqualified opinion on the financial statements of the Harbors Division, Department of Transportation, State of Hawaii (the Harbors Division).
- (b) Internal control over financial reporting:
  - No material weaknesses were noted.
  - No significant deficiencies that are not considered to be material weaknesses were noted.
- (c) No instances of noncompliance material to the financial statements were noted.

*Federal Awards*

- (a) Internal control over major program:
  - No material weaknesses were noted.
  - Significant deficiencies that are not considered to be material weaknesses were noted and are reported as Findings 10-01 and 10-02 (refer to Appendix 1).
- (b) The auditors' report on compliance expressed an unqualified opinion on the major program.
- (c) Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported as Findings 10-01 and 10-02 (refer to Appendix 1).
- (d) The Harbors Division's major program was:

U.S. Department of Homeland Security – Port Security Grant Program (CFDA No. 97.056)
- (e) A threshold of \$300,000 was used to distinguish between Type A and Type B programs.
- (f) The Harbors Division did not qualify as a low-risk auditee.

**HARBORS DIVISION**  
**DEPARTMENT OF TRANSPORTATION**  
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**Schedule of Findings and Questioned Costs**

**Year Ended June 30, 2010**

**(2) Findings Relating to the Audit of the Harbors Division's Financial Statements which are Required to be Reported in Accordance with *Government Auditing Standards***

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.

*None noted.*

**(3) Findings Relating to Federal Awards**

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.

*Refer to Appendix 1.*



**HARBORS DIVISION  
DEPARTMENT OF TRANSPORTATION  
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**Single Audit Findings**

**June 30, 2010**

**Finding 10-01**

**U.S. Department of Homeland Security – Port Security Grant Program  
2006-GB-T6-0077  
CFDA No. 97.056**

**Reporting**

*Condition*

During our audit, we noted that amounts reported on the Financial Status Reports (FSRs) and the Semi-Annual Progress Report (SAPRs), formerly called the Categorical Assistance Progress Report (CAPR), did not agree to the accounting records that support the audited financial statements and the Schedule of Expenditures of Federal Awards.

The Harbors Division over reported expenditures on the FSRs for the second quarter of the fiscal year ended June 30, 2010 by \$27,547, and under reported expenditures on the FSRs for the fourth quarter of the fiscal year ended June 30, 2010 by \$182,114. Additionally, the Harbors Division under reported expenditures on the SAPRs for both semi-annual periods for the fiscal year ended June 30, 2010 by \$230,580 and \$182,114, respectively.

*Criteria*

The grant agreement requires the recipient of the grant to submit quarterly FSRs and semi-annual SAPRs providing updated obligation and expenditure information.

*Cause*

The FSRs and SAPRs were prepared by the Grant Manager based on invoices he had available rather than reporting actual expenditures incurred as recorded in the general ledger. The Grant Manager is responsible for preparing, reviewing, approving, and submitting the reports. We noted that there were no formal processes or procedures requiring the Grant Manager to submit expenditure information contained in the reports for review and approval by Fiscal Office personnel prior to the online submission. Accordingly, there was no review and approval of the expenditures reported on the FSRs and SAPRs performed by Fiscal Office personnel prior to submission of the reports to ensure the accuracy and completeness of the expenditures reported.

*Effect*

The Harbors Division is not in compliance with the reporting requirements that updated obligation and expenditure information be reported on a regular basis.

**HARBORS DIVISION  
DEPARTMENT OF TRANSPORTATION  
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**Single Audit Findings**

**June 30, 2010**

*Recommendation*

We recommend that for all grants, Grant Managers be required to submit reports disclosing expenditures for review and approval by the Fiscal Office personnel prior to online submission of those reports to ensure the accuracy and completeness of the expenditures reported. The expenditure information submitted to the granting agency should be based on actual expenditures as reflected in the Harbors Division's general ledger.

*Views of Responsible Officials and Planned Corrective Action*

At a meeting held on March 30, 2010, it was emphasized to Grant Managers that disclosures of expenditure information, including submission of reimbursement requests, must be submitted for review and approval by the Harbors Division Fiscal Officer prior to submission to the granting Federal agency to ensure accuracy and completeness of expenditures reported. Information regarding expenditures made is distributed by the Fiscal Officer to the Grant Managers, either in the form of spreadsheets reflecting project to date expenditures or in the form of copies of the actual expenditure documents submitted to the Department of Accounting and General Services for processing by the Fiscal Office. This practice allows for the Grant Managers to be informed as to when their invoice submittals were actually processed for payment.

This finding specifically relates to reports prepared by the Grant Manager for the Homeland Security Grant and Port Security Grant Programs. Due to an oversight, these reports were not submitted to the Fiscal Officer for confirmation of the amounts expended prior to online submission and resulted in discrepancies between FSRs and SAPRs. This situation is being rectified in that the Grant Manager will be relieved of his duties by June 30, 2011. The Harbors Administrator, being the immediate supervisor, will be training the replacement Grant Manager to follow proper procedures.

The Harbors Division is also in the process of formalizing its procedures in writing to require Grant Managers to submit their progress reports for the review and approval of the Fiscal Officer prior to submission to the respective federal agencies.

**HARBORS DIVISION  
DEPARTMENT OF TRANSPORTATION  
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**Single Audit Findings**

**June 30, 2010**

**Finding 10-02**

**U.S. Department of Homeland Security – Port Security Grant Program  
HSTS04-04-G-GPS507  
CFDA No. 97.056**

**Equipment and Real Property Management**

*Condition*

During our audit, we noted that the Harbors Division did not maintain sufficient records to identify all equipment (including the location and cost) acquired with federal funds and located on the islands of Hawaii and Kauai. We noted that sufficient records were maintained for equipment located on the island of Oahu. Further, we noted that the Harbors Division was able to reconcile all equipment acquisitions recorded as program expenditures to its general ledger.

*Criteria*

A State shall use, manage, and dispose of equipment acquired under a Federal grant in accordance with State laws and procedures. Federal grant requirements stipulate that equipment records be maintained, a physical inventory of equipment be taken at least once every two years and reconciled to the equipment records, an appropriate control system be used to safeguard equipment, and equipment be adequately maintained.

*Cause*

There appears to be a lack of oversight to ensure adequate records are maintained for equipment located on the islands of Hawaii and Kauai.

*Effect*

Failure to maintain adequate equipment records will negatively affect the Harbors Division's ability to comply with the equipment management requirements.

**HARBORS DIVISION  
DEPARTMENT OF TRANSPORTATION  
STATE OF HAWAII**  
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**Single Audit Findings**

**June 30, 2010**

*Recommendation*

We recommend the Grant Manager prepare a listing of all equipment acquired with federal funds. The Fiscal Office should include these equipment acquisitions in the capital asset records in sufficient detail to allow the Harbors Division to use, manage, and dispose of equipment in accordance with federal grant requirements and State laws and procedures.

*Views of Responsible Officials and Planned Corrective Action*

The Harbors Division received equipment details from the contractor that reflected the types, quantities and cost of the equipment that were installed at the Honolulu, Hilo and Nawiliwili Harbors facilities. The data provided by the contractor also included maintenance information as well as copies of diagrams or working drawings to pinpoint the specific locations of the installed equipment at each harbor. In response to a request by the FY 2009 auditors, the Fiscal Officer had earlier taken the equipment details and prepared a list of the Honolulu Harbor equipment in a new format. The Hilo and Nawiliwili Harbor equipment details were not incorporated into a similar formatted listing prepared for the Honolulu Harbor equipment. The Harbors Division intends to prepare equipment listings in a format similar to what was prepared for Honolulu Harbor.