

**State of Hawaii
Water Pollution Control Revolving
Fund and Drinking Water Treatment
Revolving Loan Fund**

**Internal Control and
Business Issues Report
June 30, 2011**

**Submitted by
The Auditor
State of Hawaii**

The Auditor
State of Hawaii

In planning and performing our audits of the financial statements of the State of Hawaii, Water Pollution Control Revolving Fund ("WPCRF") and Drinking Water Treatment Revolving Loan Fund ("DWTRLF") as of and for the year ended June 30, 2011, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. However, we noted certain matters involving internal control and its operation, and are submitting for your consideration related observations and recommendations designed to help the WPCRF and DWTRLF improve internal control and achieve operational effectiveness.

This letter is intended solely for the information and use of the Auditor, management of the WPCRF and DWTRLF, and others within the State of Hawaii, Department of Health (the "Department") and is not intended to be and should not be used by anyone other than these specified parties.

Acuity LLP

Honolulu, Hawaii
January 27, 2012

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**State of Hawaii
Water Pollution Control Revolving Fund and
Drinking Water Treatment Revolving Loan Fund
Current Year Comments
Year Ended June 30, 2011**

Comment No. 11-01: Cash Management

During our current year audit of the Water Pollution Control Revolving Fund (“WPCRF”), a \$2,932,655 ARRA fund was disbursed nearly a month after the date of the drawdown. In accordance with the Cash Management Improvement Act Regulations & Guidance 31 Code of Federal Regulations (“CFR”) 205.33, a State must minimize the time between the drawdown of Federal funds from the Federal government and their disbursement for Federal program purposes such that the timing and amount of funds transferred must be as close as administratively feasible to a State’s actual cash outlay. The delays were caused by the State’s payment process that requires payments to be processed through DAGS resulting in processing delays.

Recommendation

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

Comment No. 11-02: Suspension and Debarment Check

During our current year audit of the Drinking Water Treatment Revolving Loan Fund (“DWTRLF”), we noted an instance where a contract was procured by the state laboratory using a federal grant, but the program did not check the Excluded Parties List System (“EPLS”) website in order to ensure that the vendor was not suspended or debarred. We noted that the program had implemented a procedure to review the EPLS prior to executing any contracts, however, there was no evidence that a verification check for the covered transaction was performed by checking the EPLS, collecting a certification from the entity, or adding a clause to the covered transaction with the entity. There is a risk that the program will procure a contract with a suspended or debarred party and violate federal regulations.

Recommendation

We recommend that the program properly monitors all contracts procured with the DWTRLF grant and ensure proper documentation is maintained to evidence the review.

**State of Hawaii
Water Pollution Control Revolving Fund and
Drinking Water Treatment Revolving Loan Fund
Prior Year Comments
Year Ended June 30, 2011**

Comment No. 10-01: Procurement (Small Purchases)

In accordance with Hawaii Administrative Rules (“HAR”), “Goods, services, and construction, section (a) Based on specifications and with adequate and reasonable competition: (1) No less than three quotes shall be solicited for expenditures of \$5,000 to less than \$15,000.” During our prior year testing of the federal reporting compliance requirement for the Capitalization Grants for the Drinking Water State Revolving Funds (“DWSRF”) program (CFDA No. 66.468) administered by the DWTRLF, we noted an instance where a procurement within this threshold did not have proper documentation evidencing that three quotations were obtained. Without maintenance of proper documentation, there is a risk that inappropriate procurement transactions may be executed and go undetected.

We recommended that personnel maintain adequate documentation to support that procedures were followed in accordance with HAR.

Status

Resolved. During our current year audit, we noted that the personnel maintained adequate documentation to support that procedures were followed in accordance with HAR.

Comment No. 10-02: Allowable Costs and Cost Principles (Payroll)

During our prior year audit of the DWTRLF program, we noted errors in the excel spreadsheet prepared by the Environmental Resource Office (“ERO”) Accountant, which was used to allocate payroll charges. This resulted in an under allocation of payroll expenses to the program of approximately \$8,000. The error occurred because there was no review of the schedule prior to adjustments being recorded in the State’s Financial Accounting Management and Information System (“FAMIS”). The lack of secondary review prior to adjustment of the financial statements poses a risk of material misstatement or potential noncompliance with federal rules and regulations.

We recommended that a supervisor at ERO review the spreadsheet used to allocate payroll charges prior to adjustment being made in FAMIS in order to ensure complete and accurate reporting.

Status

Resolved. During our current year audit, we noted that that there were no errors to the payroll charge allocation.

**State of Hawaii
Water Pollution Control Revolving Fund and
Drinking Water Treatment Revolving Loan Fund
Prior Year Comments
Year Ended June 30, 2011**

Comment No. 08-02: Earmarking (15% Local Assistance Set-Aside)

During our prior year audit of the DWTRLF program, we noted that although separate federal and state activity codes were set up by the program to track State Revolving Fund ("SRF") and non-SRF funds, there was \$25,000 in training fees that were collected and deposited into the 1998 cap grant year 15 percent set-aside (SRF) activity code in FAMIS. Although there were no questioned costs, there is risk that this could lead to misstated accounting records.

We recommended that the program create new activity codes, as necessary, within the DWTRLF appropriation and transfer the amount related to the training fees to the new account(s). These accounts would be set up specifically to track training fees and other similar types of non-SRF income that are received by the program.

Status

Unresolved. In the current year, the program did not create new activity codes within the DWTRLF appropriation or transfer the amounts related to the training fees to the new account(s). As this comment was not resolved in the current year, it will be carried forward.