



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, 2011

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, 2011**

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## **Section I**

### **Introduction**



January 31, 2012

The Auditor  
State of Hawaii:

We have completed our audit of the financial statements of the Harbors Division, Department of Transportation, State of Hawaii (the Harbors Division), an enterprise fund of the State of Hawaii, as of and for the year ended June 30, 2011. We have also audited the Harbors Division's compliance with requirements applicable to its major federal financial assistance programs. We submit herein our reports pertaining to our audit of the Harbors Division's financial statements and federal financial assistance programs.

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, 2011, 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 each of its major federal programs 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 each of its major federal programs.

## 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, 2011, 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, Kaitoko, Aoi, Lina & 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 (the Harbors Division), an enterprise fund of the State of Hawaii, as of and for the year ended June 30, 2011, and have issued our report thereon dated January 31, 2012. 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**

Management of the Harbors Division is responsible for establishing and maintaining effective 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 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 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, Kuroki, Aoi, Lano & Yamada CPAs LLC*

Honolulu, Hawaii  
January 31, 2012



## **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 each of the Harbors Division's major federal programs for the year ended June 30, 2011. The Harbors 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 each of its major federal programs 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 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 each of its major federal programs for the year ended June 30, 2011. 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 11-01, 11-02, and 11-03.

### **Internal Control over Compliance**

Management of the 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 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 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 11-01, 11-02, and 11-03. *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 basic financial statements of the Harbors Division as of and for the year ended June 30, 2011, and have issued our report thereon dated January 31, 2012. 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.

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, Kunitaka, Aoi, Leno, Yano CPAs LLC*

Honolulu, Hawaii  
January 31, 2012

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

Year Ended June 30, 2011

Federal/Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Award Number	Federal Expenditures
<b>U.S. Department of Homeland Security</b>			
Port Security Grant Program	97.056	2006-GB-T6-0077	\$ 592,676
		2007-GB-T7-0433	63,374
		HSTS04-04-G-GPS507	13,980
		DTSA20-03-G-01153	519
			<u>670,549</u>
ARRA Port Security Grant Program	97.116	2009-PU-RI-0165	124,950
<i>Passed through State of Hawaii, Department of Defense</i>			
Homeland Security Grant Program	97.067	2009-SS-T9-0006	<u>26,998</u>
<b>Total U.S. Department of Homeland Security</b>			822,497
<b>U.S. Department of Transportation</b>			
<i>Passed through State of Hawaii, Department of Transportation</i>			
ARRA TIGER Discretionary Grant Program	20.932	DTMA1G10003	<u>8,465,971</u>
<b>Total Expenditures of Federal Awards</b>			<u><u>\$ 9,288,468</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

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

**Year Ended June 30, 2011**

**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 programs have been reconciled to the accounting records underlying the Harbors Division's financial statements.

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Schedule of Findings and Questioned Costs

Year Ended June 30, 2011

**(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 programs:
  - No material weaknesses were noted.
  - Significant deficiencies that are not considered to be material weaknesses were noted and are reported as Findings 11-01, 11-02, and 11-03 (refer to Appendix 1).
- (b) The auditors' report on compliance expressed an unqualified opinion on the major programs.
- (c) Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported as Findings 11-01, 11-02, and 11-03 (refer to Appendix 1).
- (d) The Harbors Division's major programs were:
  - U.S. Department of Homeland Security – Port Security Grant Program (CFDA No. 97.056)
  - U.S. Department of Transportation – ARRA TIGER Discretionary Grant Program (CFDA No. 20.932)
- (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.

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Schedule of Findings and Questioned Costs

Year Ended June 30, 2011

**(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  
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Single Audit Findings

June 30, 2011

**Finding 11-01**  
**U.S. Department of Transportation**  
**ARRA TIGER Discretionary Grant Program**  
**DTMA1G10003**  
**CFDA No. 20.932**

**Suspension and Debarment**

*Condition*

During our audit, we noted that the Harbors Division personnel did not review the Excluded Parties Listing System (EPLS) to check whether Watts Constructors, LLC was suspended or debarred prior to the execution of the contract.

*Criteria*

Non-Federal entities are prohibited from contracting with or making subawards expected to equal or exceed \$25,000 or meet certain other specified criteria as stated in 2 CFR part 180.

*Cause*

The engineer in charge of the procurement did not check the EPLS to determine whether Watts Constructors, LLC was suspended or debarred from receiving federal funds during the procurement stage.

*Effect*

The deficiency could result in the Harbors Division entering into prohibited transactions as described above and thus not comply with Federal regulations.

We noted no instances of the Harbors Division entering into prohibited transactions.

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Single Audit Findings

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*Recommendation*

We recommend that the Harbors Division adopt a formal, written policy requiring the review of the EPLS prior to the execution of contracts and document such reviews in the contract files. The policy should contain procedures describing how to use the EPLS, who is responsible for checking the EPLS, when the check should be performed, and how to appropriately document the results.

*Views of Responsible Officials and Planned Corrective Action*

While the Harbors Division did not check the EPLS, the Department's centralized Contracts Office performed the check prior to the execution of the contract. We concur with the recommendation that the Harbors Division should review the EPLS prior to submitting a contract to the Department's Contracts Office for processing and to fully document the results. The Engineering Program Manager has instructed his staff on appropriate procedures to review the EPLS for federally funded projects and to document the results by filing a screen print in the project files.

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Single Audit Findings

June 30, 2011

**Finding 11-02**  
**U.S. Department of Transportation**  
**ARRA TIGER Discretionary Grant Program DTMA1G10003**  
**DTMA1G10003**  
**CFDA No. 20.932**

**Reporting**

*Condition*

During our audit, we noted that reports are prepared by the Fiscal Officer to comply with the American Recovery and Reinvestment Act (ARRA) Section 1512. These reports, which provide information about the jobs retained by the program, are not reviewed by another individual prior to submission to the U.S. Department of Transportation. Jobs retained are calculated based on monthly employment reports provided by Watts Constructors, LLC.

*Criteria*

The grant requires the Harbors Division to report the number of jobs retained by the program in accordance with ARRA Section 1512.

*Cause*

No one has been designated to review the reports prepared by the Fiscal Officer to report jobs retained by the ARRA TIGER Discretionary Grant Program.

*Effect*

This deficiency could potentially cause reporting errors to go undetected, resulting in non-compliance with the grant requirements. No material errors were noted for the reports filed for the fiscal year ended June 30, 2011.

*Recommendation*

We recommend that the Harbors Division designate an employee to review the ARRA reports prepared by the Fiscal Officer.

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*Views of Responsible Officials and Planned Corrective Action*

The State has established an Office of Economic Recovery and Reinvestment (OERR) to monitor ARRA reporting on the 1512 reports submitted quarterly to federalreporting.gov. The OERR's review includes the job reports. Additionally, the Engineering Branch submits monthly reports to the Maritime Administration of which information from the monthly reports are consolidated into the quarterly 1512 reports.

The jobs reports are prepared by the contractor and submitted to the Engineering Branch for review and then forwarded to the Fiscal Officer to enter the jobs information into the 1512 report.

To address the concerns noted in the finding, the Harbors Division has instituted a change in its procedures in that the Engineering Branch will complete a 1512 jobs report template with the jobs information and forward the completed template to the Fiscal Officer for review. The Fiscal Officer will review the completed template for correctness and enter the jobs information into the 1512 report.

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Single Audit Findings

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**Finding 11-03**  
**U.S. Department of Homeland Security**  
**Port Security Grant Program**  
**2006-GB-T6-0077 & 2007-GB-T7-0433**  
**CFDA 97.056**

**Reporting**

*Condition*

The Port Security Grant Program is funded by two grants #2006-GB-T6-0077 and #2007-GB-T7-0433. These grants require quarterly Federal Financial Reports (FFRs) and Semi-Annual Progress Reports (SAPRs), which were formerly called the Categorical Assistance Progress Report (CAPR).

During our audit, we noted that amounts reported on the FFRs did not agree to the accounting records that support the audited financial statements and the schedule of expenditures of federal awards. The Harbors Division underreported expenditures on the FFRs for the first and second quarters of the fiscal year ended June 30, 2011 for grant #2006-GB-T6-0077 by \$562,053 and \$870,780, respectively. We noted that the third quarter and fourth quarter reports reflected the appropriate expenditure amounts.

The SAPRs for both grant #2006-GB-T6-0077 and #2007-GB-T7-0433 for the fiscal year ending June 30, 2011 were submitted to the U.S. Department of Homeland Security. However, we noted that the SAPRs did not provide updated obligation and expenditure information as required by the grant agreement. In addition, we noted that these reports were not reviewed by another individual prior to submission to the U.S. Department of Homeland Security.

*Criteria*

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

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Single Audit Findings

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*Cause*

The FFRs for the first and second quarters 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 implementation of a formal process 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 began on May 12, 2011. The Harbors Division provided us with evidence that all FFRs filed for the third and fourth quarters had been reviewed by the Fiscal Office prior to online submission except for the fourth quarter FFR for grant #2006-GB-T6-0077.

No one has been designated to review the SAPRs prior to submission to the U.S. Department of Homeland Security.

*Effect*

The Harbors Division is not in compliance with the applicable reporting requirements. Specifically, expenditure amounts reported on certain quarterly FFRs did not agree to the accounting records and semi-annual SAPRs did not report updated obligation and expenditure information.

All three reports submitted to claim reimbursement (Form SF 270) were tested and we determined that the information contained in these reports were complete and accurate in regards to the underlying accounting information. Therefore the deficiencies stated above had no effect on the federal expenditures claimed for reimbursement, the actual amounts received from the Department of Homeland Security, nor on the federal expenditures reported in the schedule of expenditures of federal awards.

The deficiency related to the review of SAPRs could potentially cause reporting errors to go undetected.

*Recommendation*

We recommend the Harbors Division continue its efforts to implement their policy requiring that expenditure information contained in the reports be submitted to Fiscal Office personnel for review and approval prior to the online submission. We also recommend that the Harbors Division report updated obligation and expenditure information in the SAPRs as required by the grant agreement.

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*Views of Responsible Officials and Planned Corrective Action*

Procedures were established at a meeting on May 11, 2011, to submit expenditure information on federal grants for review and approval by the Fiscal Officer prior to submission to the granting Federal agency to ensure accuracy and completeness of expenditures reported. The Grant Manager was relieved of his duties on June 30, 2011, and the Harbors Administrator, being the immediate supervisor, assumed responsibilities to oversee the federal grants until a replacement is hired.

The Harbors Administrator will ensure that appropriate reviews are completed prior to the on-line submission of all FFRs and SAPRs and that documentation of this review is retained in the project files. Additionally, all reports electronically submitted will be printed and maintained in the project files for audit documentation.