



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

Single Audit Reports

Year ended June 30, 2012

(With Independent Auditors' Reports 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, 2012, and have issued our report thereon dated December 12, 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 Airports Division is responsible for establishing and maintaining effective 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 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 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 management of the Airports Division, the Auditor, State of Hawaii, and federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

December 12, 2012



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, 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, 2012. 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 each of its major federal programs 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 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, 2012. 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 2012-01 and 2012-02.

**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 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, 2012, and have issued our report thereon dated December 12, 2012, which contained an unqualified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. We have not performed any procedures with respect to the audited financial statements subsequent to December 12, 2012. 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The Airports Division's responses to the findings identified in our audit are 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 management of the Airports Division, the Auditor, State of Hawaii, and federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

**KPMG LLP**

February 20, 2013

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

(An Enterprise Fund of the State of Hawaii)

Schedule of Expenditures of Federal Awards

Year ended June 30, 2012

<u>Federal grantor/program title/grant number</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		\$ 58,071
3-15-0000-03		140,718
3-15-0000-04		55,100
3-15-0004-31		6,297,295
3-15-0004-32		52,263
3-15-0004-33		52,263
3-15-0004-35		854,217
3-15-0004-36		62,505
3-15-0004-37		2,654,327
3-15-0004-38		1,269,646
3-15-0004-39		303,522
3-15-0004-40		117,263
3-15-0004-41		1,146
3-15-0004-42		76,412
3-15-0004-43		189,527
3-15-0005-91		416,605
3-15-0005-92		353,921
3-15-0005-93		1,856,464
3-15-0005-94		44,860
3-15-0005-95		1,217,655
3-15-0005-96		49,565
3-15-0005-97		34,201
3-15-0005-98		1,320,711
3-15-0005-99		92,438
3-15-0005-100		4,810,373
3-15-0005-101		165,833
3-15-0005-102		744,038
3-15-0005-103		145,440
3-15-0005-104		212
3-15-0005-106		169,127
3-15-0005-107		765,726
3-15-0006-44		804,237
3-15-0006-45		71,959
3-15-0006-47		121,259
3-15-0006-48		521,594
3-15-0008-29		137,366
3-15-0008-31		1,203
3-15-0008-32		137,754
3-15-0008-34		231,025
3-15-0008-35		46,376
3-15-0009-06		73,026
3-15-0011-14		474,919
3-15-0011-15		3,787,406

**DEPARTMENT OF TRANSPORTATION  
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Schedule of Expenditures of Federal Awards  
Year ended June 30, 2012

<u>Federal grantor/program title/grant number</u>	<u>CFDA number</u>	<u>Federal expenditures</u>
3-15-0011-17		\$ 197
3-15-0012-12		4,792,463
3-15-0012-13		238,957
3-15-0012-14		385,205
3-15-0013-38		477,032
3-15-0013-39		44,901
3-15-0013-40		94,471
3-15-0013-41		201,170
3-15-0014-12		172,430
DTFA08-08-C-50606		778,115
DTFA08-08-C-50668		55,616
Total CFDA 20.106		<u>\$ 38,020,125</u>
U.S. Department of Homeland Security:		
Law Enforcement Officer Reimbursement Agreement Program:	97.090	
HSTS0208HSLR078		\$ 918,665
HSTS0208HSLR321		313,623
HSTS0208HSLR087		118,972
HSTS0208HSLR079		155,692
HSTS0208HSLR082		146,900
HSTS0208HSLR320		95,862
HSTS0208HSLR327		92,480
HSTS0208HSLR093		77,407
Total CFDA 97.090		<u>1,919,601</u>
Transportation Security Administration – Airport Checked Baggage Inspection System Program:	97.117	
HSTS04-09-H-REC157 (ARRA)		<u>9,191,233</u>
Total CFDA 97.117		9,191,233
National Explosives Detection Canine Team Program:	97.072	
DTSA20-03-H-01000		149,388
Federal Emergency Management Agency: Wildland Firefighting Activity:	N/A	
FEMA 2834		(430)
National Special Security Event Reimbursement – APEC Expenses	N/A	<u>96,130</u>
Total federal expenditures		<u><u>\$ 49,376,047</u></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, 2012

**(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, 2012

**(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 noted**

Material weaknesses: **None reported**

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

Material weaknesses: **None reported**

- (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 2012-01 and 2012-02**
- (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: **\$1,481,281.**
- (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, 2012

**(3) Findings and Questioned Costs Relating to Federal Awards**

**2012-01 – Cash Management – Requests for Reimbursement**

***Information on Federal Programs***

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

Federal Awards Nos.:

3-15-0005-94

Award Years: June 19, 2008 to September 30, 2012

***Specific Requirements/Criteria***

The Office of Management and Budget (OMB) Circular A-133 Compliance Supplement, Part 3 C, *Cash Management* states that “*When entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the Federal Government.*”

***Condition***

Out of a sample of 25 reimbursement requests, we identified 1 instance where, although the Airports Division had submitted the request for payment of the invoice to the State of Hawaii (the State), the reimbursement request was submitted prior to the invoice being paid by the State. However, in this instance, the reimbursement was received on the same day the related invoice was paid by the State.

***Cause***

The above condition was primarily caused by insufficient coordination with the fiscal office and the program manager, and the internal controls were not effectively designed to ensure the reimbursement request was submitted subsequent to the invoice payment date, not the request for invoice payment date.

***Effect***

By submitting the reimbursement requests prior to the program costs being paid, the Airport Improvement Program is not in compliance with OMB Circular A-133 and also jeopardizes its ability to receive the reimbursement payments from the U.S. Department of Transportation.

***Questioned Costs***

None

***Systemic or Isolated***

Isolated

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Schedule of Findings and Questioned Costs

Year ended June 30, 2012

***Recommendation***

We recommend that the Airports Division management implement internal controls over the cash reimbursement process to ensure that the invoices are paid prior to submitting the reimbursement request.

***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 personnel.

**2012-02 – Cash Management – 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.:

HSTS0208HSLR321  
HSTS0208HSLR082  
HSTS0208HSLR327  
HSTS0208HSLR093

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

***Specific Requirements/Criteria***

The Office of Management and Budget (OMB) Circular A-133 Compliance Supplement, Part 3 C, *Cash Management* states that “When entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the Federal Government.”

***Condition***

Out of a sample of 25 reimbursement requests, we identified 4 instances where, although the Airports Division had submitted the request for payment of the invoices to the State of Hawaii (the State), the reimbursement requests were submitted prior to the invoice being paid by the State. However, in all 4 instances, the reimbursement was received subsequent to the invoice payment.

***Cause***

The above condition was primarily caused by insufficient coordination with the fiscal office and the program manager, and the internal controls were not effectively designed to ensure the reimbursement request was submitted subsequent to the invoice payment date, not the request for invoice payment date.

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Schedule of Findings and Questioned Costs

Year ended June 30, 2012

***Effect***

By submitting the reimbursement requests prior to the program costs being paid, the Law Enforcement Officer Reimbursement Agreement Program is not in compliance with OMB Circular A-133 and also jeopardizes its ability to receive the reimbursement payments from the U.S. Department of Homeland Security.

***Questioned Costs***

None

***Systemic or Isolated***

Systemic

***Recommendation***

We recommend that the Airports Division management implement internal controls over the cash reimbursement process to ensure that the invoices are paid prior to submitting the reimbursement request.

***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 personnel.