



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, 2013

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, 2013

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March 5, 2014

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, 2013. 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 objectives 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, 2013, in accordance with accounting principles generally accepted in the United States of America. Our independent auditors' report, which expressed an unmodified 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, 2013, 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 single audit and the organization and contents of this report.

Section II, entitled "Internal Control Over Financial Reporting and Compliance and Other Matters," 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, Aoi, Lina, Yumiko CPAs LLC*



**Independent Auditors' 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, 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, the financial statements of the Harbors Division, Department of Transportation, State of Hawaii (the Harbors Division), an enterprise fund of the State of Hawaii, which comprise the statement of net position as of June 30, 2013, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated December 20, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Harbors Division's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Harbors Division's internal control.

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 a 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Harbors Division's financial statements are free from 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*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Honolulu, Hawaii  
December 20, 2013



**Independent Auditors' Report on Compliance For Each Major Federal Program;  
Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of  
Federal Awards Required by OMB Circular A-133**

The Auditor  
State of Hawaii:

**Report on Compliance for Each Major Federal Program**

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, 2013. 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.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of the Harbors Division's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Harbors Division's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, the Harbors Division complied, in all material respects, with the types of 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, 2013.

### ***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance, 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 2013-01 and 2013-02. Our opinion on each major federal program is not modified with respect to these matters.

The Harbors Division's responses to the noncompliance findings identified in our audit are described in Appendix 1 to the accompanying schedule of findings and questioned costs as Findings 2013-01 and 2013-02. The Harbors Division's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

### **Report on Internal Control Over Compliance**

Management of the Harbors Division is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Harbors Division's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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. *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.



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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in Appendix 1 to the accompanying schedule of findings and questioned costs as Findings 2013-01 and 2013-02, that we consider to be significant deficiencies.

The Harbors Division's responses to the internal control over compliance findings identified in our audit are described in Appendix 1 to the accompanying schedule of findings and questioned costs as Findings 2013-01 and 2013-02. The Harbors Division's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

### **Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

We have audited the financial statements of the Harbors Division as of and for the year ended June 30, 2013, and have issued our report thereon dated December 20, 2013, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements 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 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

*Kobayashi, Kanetaka, Aoi, Lano & Yamada CPAs LLC*

Honolulu, Hawaii  
March 5, 2014, except for our Report on  
Schedule of Expenditures of Federal Awards  
Required by OMB Circular A-133, as to  
which the date is December 20, 2013

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

Year Ended June 30, 2013

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	2008-GB-T8-K069	\$ 2,624,675
		2007-GB-T7-0042	831,150
			<u>3,455,825</u>
ARRA Port Security Grant Program	97.116	2009-PU-R1-0165	<u>659,478</u>
<b>Total Expenditures of Federal Awards</b>			<b><u><u>\$ 4,115,303</u></u></b>

See accompanying Independent Auditors' Report on Compliance For Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by 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, 2013

**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.

**HARBORS DIVISION**  
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Schedule of Findings and Questioned Costs

Year Ended June 30, 2013

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

*Financial Statements*

- (a) The independent auditors' report expressed an unmodified 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 were reported.
- (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 were noted and are reported as Findings 2013-01 and 2013-02 (refer to Appendix 1).
- (b) The independent auditors' report on compliance expressed an unmodified 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 2013-01 and 2013-02 (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 Homeland Security – ARRA Port Security Grant Program (CFDA No. 97.116)
- (e) A threshold of \$300,000 was used to distinguish between Type A and Type B programs.
- (f) The Harbors Division qualified as a low-risk auditee.

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Schedule of Findings and Questioned Costs

Year Ended June 30, 2013

**(2) Financial Statement Findings**

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) Federal Award Findings and Questioned Costs**

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, 2013

**Finding 2013-01**  
**U.S. Department of Homeland Security**  
**ARRA Port Security Grant Program**  
**2009-PU-R1-0165**  
**CFDA No. 97.116**

**Reporting**

*Condition*

During our audit, we were unable to obtain a copy of the Semi-Annual Progress Report (SAPR) for the semi-annual period ended December 31, 2012 and the final close out report for the grant period ended February 28, 2013, and evidence that these reports were submitted to the Department of Justice, Office of Justice Programs.

Although the Harbors Division has informed us that the SAPR and the final close out report were submitted to the Department of Justice, Office of Justice Programs, we were unable to obtain copies and evidence that these reports were reviewed, approved, and submitted to the Department of Justice, Office of Justice Programs.

*Criteria*

Recipients of the federal grants should submit all required reports stipulated in the grant agreements.

*Cause*

The Harbors Division has not retained evidence documenting the submission of certain required reports.

*Effect*

The Harbors Division was unable to provide evidence supporting compliance with grant reporting requirements. In addition, we were unable to determine whether information contained in those reports were complete and accurate.

*Recommendation*

We recommend that the Harbors Division maintain copies of all SAPRs, and the final close out report, as well as evidence that these reports were reviewed, approved, and submitted to the Department of Justice, Office of Justice Programs.

**HARBORS DIVISION**  
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Single Audit Findings

June 30, 2013

*Views of Responsible Officials and Planned Corrective Action*

The recommendation to Finding 2013-01 provides that the Harbors Division maintain copies of all SAPRs and the final close out report, as well as evidence that these reports were submitted to the Department of Justice, Office of Justice Programs. Attempts to access the Office of Justice Programs Grants Management System to retrieve copies of the SAPR and the final close out report have been unsuccessful. The Harbors Division has maintained its record keeping in the FEMA Payment and Reporting System and internal work processes to ensure financial integrity; therefore, the Harbors Division affirms that it should have maintained copies of the SAPR and the final close out report. Should the Harbors Division receive additional grants for which it requires submitting the SAPR and the final close out report, the Harbors Division will incorporate the audit findings and keep copies of its written records of the reports submitted to the electronic filing system.

**HARBORS DIVISION  
DEPARTMENT OF TRANSPORTATION  
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Single Audit Findings

June 30, 2013

**Finding 2013-02**  
**U.S. Department of Homeland Security**  
**Port Security Grant Program**  
**2008-GB-T8-K069**  
**CFDA 97.056**

**Reporting**

*Condition*

During our audit, we noted the Harbors Division did not consistently provide status reports on a quarterly basis to the State Civil Defense as agreed on in the Memorandum of Agreement (MOA). Additionally, we were unable to obtain evidence of the status reports that were submitted.

*Criteria*

As stated in the MOA, the Harbors Division was obligated to submit quarterly status reports to the State Civil Defense by the 5<sup>th</sup> day of the month following the ending of each quarter.

*Cause*

The Harbors Division did not incorporate additional procedures to include sub-grantee requirements as defined in the MOA and grant agreement.

*Effect*

The Harbors Division was not in compliance with the MOA and grant agreement.

*Recommendation*

We recommend that the Harbors Division implement procedures to ensure compliance with the MOA and grant agreement.



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

June 30, 2013

*Views of Responsible Officials and Planned Corrective Action*

The Fiscal Year 2008 U. S. Department of Homeland Security Port Security Grant Program is managed by a Fiduciary Agent, who is also an employee of the State Civil Defense – the Grantee. The Harbors Division communicates/meets with the Fiduciary Agent/State Civil Defense regarding its progress in executing the project as sub-grantee. The Fiduciary Agent/State Civil Defense, as the designated person with the log-in name and password, enters the quarterly status reports into the Federal Emergency Management Agency Payment and Reporting System (PARS), and the Semi-Annual Progress Reports (SAPRs) into the Office of Justice Programs Grants Management System. On February 13, 2014, the Harbors Division confirmed with the Fiduciary Agent that she assumed responsibility for the filing of the quarterly status reports into the Federal Emergency Management Agency PARS, and the SAPRs into the Office of Justice Programs Grants Management System. The Fiduciary Agent informed the Harbors Division that in order for the Fiduciary Agent to complete her reports, she accepted telephonic project updates, written requests for reimbursement in the form and format directed by the Fiduciary Agent, and, other information the Fiduciary Agent/State Civil Defense requested from the Harbors Division, which it provided.

The MOA executed on June 3, 2010 provides for quarterly status reports; the Fiduciary Agent accepted verbal and other written reports to complete her quarterly status reports and the SAPRs.

Absent any direction or other instruction from the Fiduciary Agent that written reports were required to adhere to the terms of the MOA, the Harbor Division opines that the Fiduciary Agent/State Civil Defense found that the reporting methods employed by the Harbors Division were acceptable, i.e., - the Fiduciary Agent ratified the Harbors Division's verbal reporting and written requests for reimbursements as reports that were in compliance with the terms of the MOA by accepting these different reporting methods. The Harbors Division worked closely with the Fiduciary Agent/State Civil Defense on Fiscal Year 2008 Port Security Grant Program and continues to work closely with the Fiduciary Agent/State Civil Defense on ongoing projects. Should the Fiduciary Agent/State Civil Defense require written reports to employ a higher-level of compliance with the MOA, then the Harbors Division will adhere to that level of compliance and to that request. In the event the Harbors Division does not receive a request from the Fiduciary Agent/State Civil Defense, the Harbors Division will continue with its belief that written reports are not required and that such a high-level of reporting to be compliant was waived by the Fiduciary Agent/State Civil Defense.