

**FINANCIAL AUDIT OF THE
STATE OF HAWAII
DEPARTMENT OF HEALTH
WATER POLLUTION CONTROL REVOLVING FUND**

Fiscal Year Ended June 30, 2014

**Submitted by
The Auditor
State of Hawaii**



**STATE OF HAWAII
DEPARTMENT OF HEALTH
WATER POLLUTION CONTROL REVOLVING FUND**

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**STATE OF HAWAII
DEPARTMENT OF HEALTH
WATER POLLUTION CONTROL REVOLVING FUND**

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PART I
FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

To the Auditor
State of Hawaii

Report on the Financial Statements

We have audited the accompanying financial statements of the State of Hawaii, Department of Health, Water Pollution Control Revolving Fund (the "Fund") as of and for the fiscal year June 30, 2014, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that

are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of June 30, 2014, and the changes in its financial position and its cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note B, the financial statements of the Fund are intended to present the financial position, the changes in financial position and cash flows of only that portion of the business-type activities and proprietary fund type activities of the State of Hawaii and the State of Hawaii, Department of Health that are attributable to the transactions of the Fund. They do not purport to, and do not, present fairly the respective financial position of the State of Hawaii or the State of Hawaii, Department of Health as of June 30, 2014, the respective changes in its financial position, or its cash flows for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the Fund's basic financial statements. The supplementary information on pages 22 through 25 is presented for purposes of additional analysis and is not a required part of the financial statements.

The supplementary 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. Such 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 basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2014 on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

N&K CPAs, Inc.

Honolulu, Hawaii
November 28, 2014

**State of Hawaii
Department of Health
Water Pollution Control Revolving Fund
STATEMENT OF NET POSITION
June 30, 2014**

ASSETS

Current assets		
Equity in cash and cash equivalents and investment in State Treasury	\$	128,692,696
Loan fees receivable		275,967
Accrued interest on loans		497,298
Other accrued interest		107,492
Due from State Treasury		49,945
Due from federal government - SRF		47,782
Current maturities of loans receivable		<u>25,870,376</u>
Total current assets		155,541,556
ARRA advances		12,488,391
Loans receivable, net of current maturities		310,150,393
Capital assets, net of accumulated depreciation		<u>22,861</u>
Total assets	\$	<u>478,203,201</u>

LIABILITIES AND NET POSITION

Current liabilities		
Accounts payable and other accrued liabilities	\$	<u>240,557</u>
Total current liabilities		240,557
Accrued vacation, net of current portion		194,717
Other postemployment benefits		<u>1,265,604</u>
Total liabilities		<u>1,700,878</u>
Commitments and contingencies		
Net position		
Net investment in capital assets		22,861
Restricted - expendable		<u>476,479,462</u>
Total net position		<u>476,502,323</u>
Total liabilities and net position	\$	<u>478,203,201</u>

See accompanying notes to the financial statements.

State of Hawaii
Department of Health
Water Pollution Control Revolving Fund
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
Fiscal Year Ended June 30, 2014

OPERATING REVENUES	
Interest income from loans	\$ 2,122,535
Administrative loan fees	<u>1,223,722</u>
Total operating revenues	<u>3,346,257</u>
OPERATING EXPENSES	
Administrative	1,969,500
Principal forgiveness for SRF	<u>2,000,000</u>
Total operating expenses	<u>3,969,500</u>
Operating loss	(623,243)
NONOPERATING REVENUES	
State contributions	2,200,000
Federal contributions	8,187,591
Federal ARRA contributions	290,208
Other interest income	<u>400,691</u>
Total nonoperating revenues	<u>11,078,490</u>
Change in net position	10,455,247
NET POSITION	
Beginning of year	<u>466,047,076</u>
End of year	\$ <u><u>476,502,323</u></u>

See accompanying notes to the financial statements.

**State of Hawaii
Department of Health
Water Pollution Control Revolving Fund
STATEMENT OF CASH FLOWS
Fiscal Year Ended June 30, 2014**

Cash flows from operating activities	
Interest income	\$ 2,129,787
Administrative loan fees	1,228,463
Principal repayments on loans	27,352,640
Disbursement of loan proceeds	(59,877,915)
Payments to employees	(1,550,764)
Payments to vendors	<u>(140,522)</u>
Net cash used in operating activities	(30,858,311)
Cash flows from noncapital financing activities	
State contributions	2,200,000
Federal contributions	8,125,594
Federal ARRA contributions	290,208
Disbursement of ARRA advances	<u>(290,208)</u>
Net cash provided by noncapital financing activities	10,325,594
Cash flows from capital and related financing activities	
Purchase of equipment	<u>(6,308)</u>
Net cash used in capital and related financing activities	(6,308)
Cash flows from investing activities	
Other interest income	<u>387,383</u>
Net cash provided by investing activities	<u>387,383</u>
Net decrease in cash	<u>(20,151,642)</u>
Equity in cash and cash equivalents and investment in State Treasury	
Beginning of year	<u>148,844,338</u>
End of year	\$ <u><u>128,692,696</u></u>

See accompanying notes to the financial statements.

**State of Hawaii
Department of Health
Water Pollution Control Revolving Fund
STATEMENT OF CASH FLOWS (Continued)
Fiscal Year Ended June 30, 2014**

Reconciliation of operating loss to net cash used in operating activities	
Operating loss	\$ (623,243)
Adjustment to reconcile operating loss to net cash used in operating activities	
Depreciation	10,429
Principal forgiveness for SRF	2,000,000
In-kind contribution from the Environmental Protection Agency	115,807
Change in assets and liabilities	
Loan fees receivable	4,741
Accrued interest on loans	7,252
Loans receivable	(32,525,275)
Due from State Treasury	(49,945)
Accounts payable and other accrued liabilities	59,959
Other postemployment benefits	<u>141,964</u>
Net cash used in operating activities	\$ <u>(30,858,311)</u>
 Disclosure of noncash investing, capital, and financing activities	
In-kind contribution from the Environmental Protection Agency	\$ 115,807

See accompanying notes to the financial statements.

State of Hawaii
Department of Health
Water Pollution Control Revolving Fund
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE A - ESTABLISHMENT AND PURPOSE OF THE FUND

The Clean Water Act of 1987 (the "Act") provides for the U.S. Environmental Protection Agency ("EPA") to make grants to states for the purpose of making loans to finance the construction of publicly owned wastewater treatment works, implementation of a non-point source pollution control management program, and implementation of an estuary conservation and management program. Under the Act, the State of Hawaii ("State") was eligible to receive up to \$72 million in federal capitalization grants. Although the Act expired on September 30, 1995, the State continues to receive capitalization grants from the EPA.

In 1988, the State Legislature established the Water Pollution Control Revolving Fund (the "Fund") to implement the federal loan program. The Fund is administered by the Wastewater Branch, Environmental Management Division of the State of Hawaii, Department of Health (the "Department"). The Fund's primary purpose is to provide loans in perpetuity to county and State agencies for the construction of wastewater treatment facilities. Such loans may be at or below market interest rates and must be fully amortized within twenty years, with the first repayment of principal and interest occurring no later than one year after the notice to proceed for construction or the final agreement date, whichever is later.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

- (1) ***Basis of Presentation*** - The accompanying financial statements are intended to present the financial position, results of operations and cash flows of only that portion of the State and Department that is attributable to the transactions of the Fund and do not purport to present the financial position, results of operations or cash flows of the State or Department.

The financial statements of the Fund are presented using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles prescribed by the Governmental Accounting Standards Board ("GASB") for proprietary funds.

Revenues are reported when earned and expenses are reported when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services or goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The principal operating revenues of the Fund are interest income and administrative loan fees on loans made to county governments. Federal grants, state matching funds and interest income from sources other than loans are reported as nonoperating revenues. Principal forgiveness for loans and ARRA advances are

State of Hawaii
Department of Health
Water Pollution Control Revolving Fund
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

reported as operating expenses. Prior to July 1, 2013, management reported principal forgiveness for loans and ARRA advances as nonoperating expenses. Management believes that reporting principal forgiveness of loans and ARRA advances as operating expenses better corresponds to the substance of the event being recognized.

- (2) **Use of Estimates** - In preparing financial statements in conformity with accounting principles generally accepted in the United States, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates relate to the allowances for doubtful accounts, depreciable lives of capital assets, and the other postemployment benefits ("OPEB") liability.
- (3) **Equity in Cash and Cash Equivalents and Investments in State Treasury** - All monies of the Fund are held in the State Treasury. The State Director of Finance is responsible for the safekeeping of cash in the State Treasury in accordance with State laws. The Director of Finance may invest any monies of the State, which in the Director's judgment, are in excess of the amounts necessary for meeting the immediate requirements of the State. Effective August 1, 1999, cash is pooled with funds from other State agencies and departments and deposited into approved financial institutions or in the State Treasury Investment Pool System. Funds in the investment pool accrue interest based on the average weighted cash balances of each account.

At June 30, 2014, information relating to the types, insurance, collateral, and related interest rate, credit and custodial risks of funds deposited with the State Treasury was not available since such information is determined on a statewide basis and not for individual departments. Cash deposits with the State Treasury are either federally insured or collateralized with obligations of the State or the United States of America. All securities pledged as collateral are held either by the State Treasury or by the State's fiscal agents in the name of the State.

- (4) **ARRA Advances** - The Fund received American Recovery and Reinvestment Act ("ARRA") stimulus money that was used to provide construction grants with no interest or loan fees and 100 percent principal forgiveness upon completion of approved projects. The Fund is allowed to use up to 4 percent of the ARRA funds for administrative costs, and has elected to use \$600,000 for administrative costs, with the remaining amount committed to grants. ARRA funds provided to counties have been classified as "ARRA Advances" on the Statement of Net Position upon disbursement. The ARRA advances will be completely forgiven and expensed once all the conditions and compliance requirements have been satisfied by the counties. If conditions and compliance requirements are not met, the grants will convert to loans, requiring repayment of principal, interest and loan fees.

State of Hawaii
Department of Health
Water Pollution Control Revolving Fund
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

- (5) **Loans Receivable** - Loans made to counties are funded by federal capitalization grants, State matching funds, repayments and investment interest income. Loan funds are disbursed to local agencies as they expend for the purposes of the loan and request reimbursement from the Fund. Interest is calculated from the date that loan funds are disbursed. After the final disbursement has been made, the payment schedule identified in the loan agreement is adjusted for the actual amounts disbursed and interest accrued during the project period. The capitalization grants for federal fiscal years 2010 through 2013 allow for portions of loans to be forgiven upon satisfaction of certain requirements. Management of the Fund considers these loans to be program loans, as they are undertaken to fulfill a governmental responsibility. All loans made and collected (including interest) are considered to be operating cash outflows and inflows, respectively.
- (6) **Administrative Loan Fees** - In June 1996, the Department implemented an administrative loan fee program to pay for the Fund's administration, including employee salaries and benefits. The program applies an administrative fee to all loans as provided for in Chapter 11-65 of the Hawaii Administrative Rules.
- (7) **Capital Assets** - Capital assets are defined as those assets with estimated useful lives greater than one year and with an acquisition cost greater than \$5,000. Such assets consist principally of equipment, and are recorded at cost or, if donated, at appraised value at the date of donation. Depreciation of capital assets is provided for on a straight-line basis over the estimated useful lives (5-7 years) of the respective assets.
- (8) **Accrued Vacation** - Vacation pay is accrued as earned by employees. Vacation pay can accumulate at the rate of one and three-quarters working days for each month of service up to 720 hours at calendar year-end and is convertible to pay upon termination of employment. The current portion of the accrued vacation balance is included in the accounts payable and other accrued liabilities balance.
- (9) **Accumulated Sick Leave** - Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limit, but may be taken only in the event of illness and is not convertible to pay upon termination of employment. However, a State employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the Employees' Retirement System of the State of Hawaii ("ERS"). At June 30, 2014, accumulated sick leave was approximately \$1,065,000.
- (10) **Net Position** - The Fund's net position is classified into two net position categories.

Net investment in capital assets consists of capital assets, net of accumulated depreciation and outstanding debt attributable to the acquisition, construction or improvement of those assets.

State of Hawaii
Department of Health
Water Pollution Control Revolving Fund
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted-expendable consists of restricted assets less liabilities whose use by the Fund are subject to externally-imposed stipulations that can be fulfilled by actions of the Fund pursuant to those stipulations or that expire by the passage of time.

- (11) **Administrative Costs** - The accompanying financial statements do not reflect certain administrative costs, which are paid for by other sources of funding from the Department. These costs include the Department's and State's overhead costs which the Department does not assess to the Fund, since they are not practical to determine.
- (12) **Fund Accounts** - The Fund consists of State revolving fund ("SRF") and State activity. The SRF activity exclusively consists of federal capitalization grant loans, state matching contributions, federal administration, principal loan repayments, and interest from loans and other earning assets. The State activity consists of the State loan funds, State grant funds, non-point source funds, and State loan administration fees.
- (13) **Expenses** - The statement of revenues, expenses and changes in fund net position presents expenses on a functional basis. The natural classifications of expenses are presented in the supplemental schedule of operating expenses.
- (14) **New Accounting Pronouncements** - Effective for the year ended June 30, 2014, the Fund adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The objective of this statement is to reclassify certain assets and liabilities as deferred outflows of resources and deferred inflow of resources and recognizes certain assets and liabilities as outflows of resources or inflows of resources. The adoption of this statement did not have a material effect on the Fund's financial statements.

Effective for the year ended June 30, 2014, the Fund adopted GASB Statement No. 66, *Technical Corrections*. The objective of this statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The adoption of this statement did not have a material effect on the Fund's financial statements.

Effective for the year ended June 30, 2014, the Fund adopted GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The objective of this statement is to enhance comparability of financial statements among governments by requiring consistent reporting by those governments that extend nonexchange financial guarantees and by those governments that receive nonexchange financial guarantees. The statement also will enhance the information disclosed about a government's obligations and risk exposure from extending

State of Hawaii
Department of Health
Water Pollution Control Revolving Fund
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

nonexchange financial guarantees as well as augment the ability of financial statement users to assess the probability that governments will repay obligation holders by requiring disclosures about obligations that are issued with this type of financial guarantee. The adoption of this statement did not have a material effect on the Fund's financial statements.

NOTE C - LOANS RECEIVABLE

At June 30, 2014, loans receivable from government entities were as follows:

Twenty-two loans receivable from the City & County of Honolulu; due in annual or semi-annual payments, including interest ranging from 0.50% to 3.02%, commencing not later than one year after project completion, notice to proceed, or loan agreement date. Final payment is due not later than twenty years after project completion.	\$ 247,154,640
Five loans receivable from the County of Hawaii; due in annual or semi-annual payments, including interest ranging from 0.50% to 2.50%, commencing not later than one year after project completion, notice to proceed, or loan agreement date. Final payment is due not later than twenty years after project completion.	23,010,641
Twenty-two loans receivable from the County of Maui; due in annual or semi-annual payments, including interest ranging from 0.50% to 2.60%, commencing not later than one year after project completion, notice to proceed, or loan agreement date. Final payment is due not later than twenty years after project completion.	46,689,072
Ten loans receivable from the County of Kauai; due in semi-annual or quarterly payments, including interest ranging from 0.25% to 2.78%, commencing not later than one year after project completion, notice to proceed, or loan agreement date. Final payment is due not later than twenty years after project completion.	<u>19,166,416</u>
	336,020,769
Less: Current maturities	<u>25,870,376</u>
	\$ <u>310,150,393</u>

**State of Hawaii
Department of Health
Water Pollution Control Revolving Fund
NOTES TO FINANCIAL STATEMENTS
June 30, 2014**

NOTE C - LOANS RECEIVABLE (Continued)

Loans are expected to mature at various dates through 2034. The scheduled principal payments on loans maturing in subsequent years are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2015	\$ 25,870,376
2016	25,789,882
2017	25,244,031
2018	25,011,450
2019	24,020,675
Thereafter	<u>210,084,355</u>
	\$ <u>336,020,769</u>

Management believes that all loans will be repaid according to the loan terms; accordingly, no provision for uncollectible amounts has been recorded.

In fiscal year 2014, \$2,000,000 in loans were forgiven. All loans forgiven were in accordance with the required conditions.

At June 30, 2014, \$24,679,850, \$15,600,000, \$3,600,000, and \$5,746,664 were committed to be loaned to the County of Hawaii, City & County of Honolulu, County of Kauai, and County of Maui, respectively, under existing loan agreements.

NOTE D - CONTRIBUTED CAPITAL

The Fund is capitalized by grants from the EPA and matching funds from the State. The following summarizes the EPA capitalization grants and ARRA funds awarded, amounts drawn on each grant, and the balances available for future loans at June 30, 2014:

<u>Budget Period</u>	<u>Amount</u>	<u>Total Draws at June 30, 2013</u>	<u>EPA Draws</u>	<u>Total 2014 Cash Draws</u>	<u>Funds Available</u>
10/01/08 - 06/30/16	\$ 5,223,500	\$ 5,194,999	\$ --	\$ 28,501	\$ --
10/01/08 - 06/30/14 (ARRA)	30,352,300	30,062,092	--	290,208	--
12/31/09 - 06/30/16	5,223,500	5,063,430	--	160,070	--
04/01/11 - 06/30/17	15,781,000	15,149,788	--	422,180	209,032
09/30/11 - 06/30/18	11,436,000	10,978,645	--	103	457,252
09/28/12 - 06/30/19	10,946,000	2,449,119	--	7,514,722	982,159
09/30/13 - 06/30/20	<u>10,341,000</u>	<u>--</u>	<u>350,000</u>	<u>18</u>	<u>9,990,982</u>
	\$ <u>89,303,300</u>	\$ <u>68,898,073</u>	\$ <u>350,000</u>	\$ <u>8,415,802</u>	\$ <u>11,639,425</u>

**State of Hawaii
Department of Health
Water Pollution Control Revolving Fund
NOTES TO FINANCIAL STATEMENTS
June 30, 2014**

NOTE D - CONTRIBUTED CAPITAL (Continued)

The State is required to match 20 percent of the estimated amount of the grant from the EPA and does so in the year that the capitalization grant is awarded. The State is not required to match funds for ARRA awards. Through June 30, 2014, the Fund was in compliance with the 20 percent State matching requirement. The required State match through June 30, 2014 approximated \$52.5 million, of which approximately \$50.4 million has been utilized and approximately \$2.1 million was available to be loaned out.

NOTE E - CAPITAL ASSETS

Summary of capital assets at June 30, 2014, is as follows:

	Balance at June 30, 2013	Additions	Retirements/ Disposals	Balance at June 30, 2014
Equipment	\$ 78,210	\$ 6,308	\$ --	\$ 84,518
Accumulated Depreciation	<u>(51,228)</u>	<u>(10,429)</u>	<u>--</u>	<u>(61,657)</u>
	<u>\$ 26,982</u>	<u>\$ (4,121)</u>	<u>\$ --</u>	<u>\$ 22,861</u>

NOTE F - ACCRUED VACATION

At June 30, 2014, long-term obligations included accrued vacation as follows:

Balance at July 1, 2013	\$ 272,838
Increase	141,358
Decrease	<u>(122,353)</u>
Balance at June 30, 2014	291,843
Less: Current portion	<u>97,126</u>
Noncurrent portion	\$ <u>194,717</u>

NOTE G - EMPLOYEE BENEFIT PLANS

Substantially all employees of the Fund participate in the State's various employee benefit plans, including the ERS, the post-employment healthcare and life insurance plan, and a deferred compensation plan. For more information on the State's benefit plans, refer to the State of Hawaii and ERS's Comprehensive Annual Financial Reports ("CAFR"). The State's CAFR can be found at the Department of Accounting and General Services ("DAGS") website: ags.hawaii.gov/reports/financial-reports/. The ERS CAFR can be found at the ERS website: <https://ers.ehawaii.gov/resource/financials>.

State of Hawaii
Department of Health
Water Pollution Control Revolving Fund
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE G - EMPLOYEE BENEFIT PLANS (Continued)

- (1) **Employees' Retirement System** - The ERS is a cost-sharing, multiple-employer public employee retirement plan. The ERS provides retirement benefits as well as death and disability benefits. All contributions, benefits and eligibility requirements are established by Chapter 88, HRS, and can be amended by legislative action.
- (2) **Deferred Compensation Plan** - The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all State employees, permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency.

All plan assets are held in a trust fund to protect them from claims of general creditors. The State has no responsibility for loss due to the investment or failure of investment of funds and assets in the plan, but has the duty of due care that would be required of an ordinary prudent investor.

- (3) **Post-Employment Healthcare and Life Insurance Benefits** - The State contributes to the Hawaii Employer-Union Health Benefits Trust Fund ("EUTF"), an agent multiple-employer defined benefit plan. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees, and their dependents. The eligibility requirements for retiree health benefits are based on date of hire.

State Policy - The actuarial valuation of the EUTF does not provide OPEB information by department or agency. Accordingly, the State's policy on the accounting and reporting for OPEB is to allocate a portion of the State's Annual Required Contribution ("ARC"), interest, and any adjustment to the ARC, to component units and proprietary funds that are reported separately in stand-alone departmental financial statements or in the State's CAFR. The basis for the allocation is the proportionate share of the State's total covered employee headcount by each component unit or proprietary fund for retiree health benefits.

Annual OPEB Cost - The components of the allocated annual OPEB cost (annual required contribution, interest on net OPEB obligation, and adjustment to annual required contribution) are insignificant to the Fund's financial statements. The following table shows the allocated annual OPEB cost that has been allocated to the Fund for the year ended June 30, 2014:

Annual OPEB Cost	\$ 253,980
Less: Contributions made	<u>(112,016)</u>
Increase in net OPEB obligation	141,964
 Net OPEB obligation	
Beginning of year	<u>1,123,640</u>
 End of year	 \$ <u>1,265,604</u>

State of Hawaii
Department of Health
Water Pollution Control Revolving Fund
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE G - EMPLOYEE BENEFIT PLANS (Continued)

Amount of Contributions Made - Contributions are financed on a pay-as-you-go basis and the Fund's contributions for the years ended June 30, 2014, 2013 and 2012, approximated \$112,000, \$105,000, and \$82,000, respectively.

Required Supplementary Information and Disclosures - The State's CAFR includes the required footnote disclosures and supplementary information on the State's OPEB plan.

NOTE H - INSURANCE COVERAGE

Insurance coverage is maintained at the State level. The State is self-insured for substantially all perils including workers' compensation. Expenditures for workers' compensation and other insurance claims are appropriated annually from the State's general fund.

The Department is covered by the State's self-insured workers' compensation program for medical expenses of injured Department employees. However, the Department is required to pay temporary total and temporary partial disability benefits as long as the employee is on the Department's payroll. Because actual claim liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claim liabilities may be re-evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

Workers' compensation benefit claims reported as well as incurred but not reported were reviewed at year end. The estimated losses from these claims were not material.

SUPPLEMENTARY INFORMATION

State of Hawaii
Department of Health
Water Pollution Control Revolving Fund
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND CASH BALANCE
Fiscal Year Ended June 30, 2014

RECEIPTS

Principal repayments on loans	\$ 27,352,640
Interest income from loans	2,129,787
State contributions	2,200,000
Federal contributions	8,125,594
Federal ARRA contributions	290,208
Administrative loan fees	1,228,463
Other interest income	<u>387,383</u>
 Total receipts	 <u>41,714,075</u>

DISBURSEMENTS

Disbursement of loan proceeds	59,877,915
Disbursement of ARRA advances	290,208
Administrative	1,691,286
Purchase of equipment	<u>6,308</u>
 Total disbursements	 <u>61,865,717</u>
 Excess of disbursements over receipts	 (20,151,642)

EQUITY IN CASH AND CASH EQUIVALENTS AND INVESTMENTS IN STATE TREASURY

Beginning of year	<u>148,844,338</u>
 End of year	 \$ <u><u>128,692,696</u></u>

State of Hawaii
Department of Health
Water Pollution Control Revolving Fund
COMBINING STATEMENT OF NET POSITION
June 30, 2014

	<u>State Revolving Fund Activity</u>	<u>State Activity</u>	<u>Total</u>
ASSETS			
Current assets			
Equity in cash and cash equivalents and investments in State Treasury	\$ 125,564,455	\$ 3,128,241	\$ 128,692,696
Loan fees receivable	--	275,967	275,967
Accrued interest on loans	497,298	--	497,298
Other accrued interest	107,492	--	107,492
Due from State Treasury	--	49,945	49,945
Due from the federal government - SRF	47,782	--	47,782
Due from SRF (to State)	(18,090)	18,090	--
Current maturities of loans receivable	<u>25,532,160</u>	<u>338,216</u>	<u>25,870,376</u>
Total current assets	151,731,097	3,810,459	155,541,556
ARRA advances	12,488,391	--	12,488,391
Loans receivable, net of current maturities	310,150,393	--	310,150,393
Capital assets, net of accumulated depreciation	<u>--</u>	<u>22,861</u>	<u>22,861</u>
Total assets	\$ <u>474,369,881</u>	\$ <u>3,833,320</u>	\$ <u>478,203,201</u>
LIABILITIES AND NET POSITION			
Current liabilities			
Accounts payable and other accrued liabilities	\$ <u>125,114</u>	\$ <u>115,443</u>	\$ <u>240,557</u>
Total current liabilities	125,114	115,443	240,557
Accrued vacation, net of current portion	74,659	120,058	194,717
Other postemployment benefits	<u>--</u>	<u>1,265,604</u>	<u>1,265,604</u>
Total liabilities	<u>199,773</u>	<u>1,501,105</u>	<u>1,700,878</u>
Net position			
Net investment in capital assets	--	22,861	22,861
Restricted - expendable	<u>474,170,108</u>	<u>2,309,354</u>	<u>476,479,462</u>
Total net position	<u>474,170,108</u>	<u>2,332,215</u>	<u>476,502,323</u>
Total liabilities and net position	\$ <u>474,369,881</u>	\$ <u>3,833,320</u>	\$ <u>478,203,201</u>

State of Hawaii
Department of Health
Water Pollution Control Revolving Fund
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
Fiscal Year Ended June 30, 2014

	State Revolving Fund Activity	State Activity	Total
	<u> </u>	<u> </u>	<u> </u>
OPERATING REVENUES			
Interest income from loans	\$ 2,094,781	\$ 27,754	\$ 2,122,535
Administrative loan fees	<u> --</u>	<u>1,223,722</u>	<u>1,223,722</u>
Total operating revenues	2,094,781	1,251,476	3,346,257
OPERATING EXPENSES			
Administrative	782,250	1,187,250	1,969,500
Principal forgiveness for SRF	<u>2,000,000</u>	<u> --</u>	<u>2,000,000</u>
Total operating expenses	<u>2,782,250</u>	<u>1,187,250</u>	<u>3,969,500</u>
Operating (loss) income	(687,469)	64,226	(623,243)
NONOPERATING REVENUES			
State contributions	2,200,000	--	2,200,000
Federal contributions	8,187,591	--	8,187,591
Federal ARRA contributions	290,208	--	290,208
Other interest income	<u>400,691</u>	<u> --</u>	<u>400,691</u>
Total nonoperating revenues	11,078,490	--	11,078,490
Interfund transfers	<u>3,561,823</u>	<u>(3,561,823)</u>	<u> --</u>
Change in net position	13,952,844	(3,497,597)	10,455,247
NET POSITION			
Beginning of year	<u>460,217,264</u>	<u>5,829,812</u>	<u>466,047,076</u>
End of year	\$ <u>474,170,108</u>	\$ <u>2,332,215</u>	\$ <u>476,502,323</u>

Note: Interest earnings from State Activity are deposited into the State Revolving Fund Activity.

**State of Hawaii
 Department of Health
 Water Pollution Control Revolving Fund
 SCHEDULE OF OPERATING EXPENSES
 Fiscal Year Ended June 30, 2014**

	State Revolving Fund Activity	State Activity	Total
Principal forgiveness for SRF	\$ 2,000,000	\$ --	\$ 2,000,000
Personnel	604,188	1,065,076	1,669,264
Intergovernmental personnel agreement expenses	115,807	--	115,807
Services rendered by other State agencies	62,106	23,361	85,467
Travel	--	32,780	32,780
Professional services	--	22,200	22,200
Depreciation	--	10,429	10,429
Telephone	149	10,085	10,234
Rental	--	7,877	7,877
Office and other supplies	--	3,630	3,630
Training	--	3,464	3,464
Miscellaneous	--	8,348	8,348
	<u> </u>	<u> </u>	<u> </u>
Total operating expenses	\$ <u>2,782,250</u>	\$ <u>1,187,250</u>	\$ <u>3,969,500</u>

PART II

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS**

**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**

INDEPENDENT AUDITOR'S REPORT

To 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 State of Hawaii, Department of Health, Water Pollution Control Revolving Fund (the "Fund"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated November 28, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund'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 Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund'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 Fund'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.

N&K CPAs, Inc.

Honolulu, Hawaii
November 28, 2014

PART III

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR A FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE**

**REPORT ON COMPLIANCE WITH THE REQUIREMENTS APPLICABLE
TO THE UNITED STATES ENVIRONMENTAL PROTECTION AGENCY'S
CLEAN WATER STATE REVOLVING FUNDS PROGRAM
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

INDEPENDENT AUDITOR'S REPORT

To the Auditor
State of Hawaii

**Report on Compliance for Capitalization Grants for Clean Water State Revolving
Funds**

We have audited the State of Hawaii, Department of Health, Water Pollution Control Revolving Fund's (the "Fund") 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 its Capitalization Grants for Clean Water State Revolving Funds Program (the "Program") for the year ended June 30, 2014.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Fund's Program 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; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the *Environmental Protection Agency Audit Guide for Clean Water and Drinking Water State Revolving Fund Programs*. Those standards and OMB Circular A-133, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on the Program occurred. An audit includes examining, on a test basis, evidence about the Fund'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 the Program. However, our audit does not provide a legal determination of the Fund's compliance with the compliance requirements referred to above.

Opinion on Compliance for Capitalization Grants for Clean Water State Revolving Funds

In our opinion, the Fund complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its Program for the year ended June 30, 2014.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the *Environmental Protection Agency Audit Guide for Clean Water and Drinking Water State Revolving Fund Programs* and which are described in the accompanying schedule of findings and questioned costs as Finding Nos. 2014-001 and 2014-002. Our opinion on the Program is not modified with respect to this matter.

The Fund's response to the findings identified in our audit is described in the Fund's Corrective Action Plan. The Fund's response was not subjected to auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the Fund 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 Fund's internal control over compliance with the types of requirements that could have a direct and material effect on the Program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance, 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 Fund'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 the 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 the

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 the 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 the accompanying schedule of findings and questioned costs as Finding No. 2014-001 and 2014-002, that we consider to be significant deficiencies.

The Fund's response to the internal control over compliance findings identified in our audit is described in the Fund's Corrective Action Plan. The Fund's response was not subjected to auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 the *Environmental Protection Agency Audit Guide for Clean Water and Drinking Water State Revolving Fund Programs*. Accordingly, this report is not suitable for any other purpose.

N&K CPAs, Inc.

Honolulu, Hawaii
November 28, 2014

PART IV
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

State of Hawaii
Department of Health
Water Pollution Control Revolving Fund
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2014

<u>Ref. No.</u>	Compliance and Internal Control Findings	<u>Questioned Costs</u>
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2014-001 Reporting (Significant Deficiency)

Federal agency: Environmental Protection Agency (“EPA”)
CFDA No.: 66.458
Program: Capitalization Grants for Clean Water State Revolving Funds
Federal award No. and award year: FS-15000114-0 9/30/2013 - 6/30/2020

Criteria: In accordance with 2 Code of Federal Regulations Part 170, the Fund is required to report executive compensation and first-tier subcontract awards on contracts and orders expected to be \$25,000 or more made with a new Federal Assistance Identification Number effective October 1, 2010 through the Federal Funding Accountability and Transparency Subaward Reporting System on FSRs.gov no later than the last day of the month following the month in which the subaward obligation was made.

Finding and Cause and Effect: During our testing of the reporting compliance requirement, we noted that the Fund did not meet the deadline for submission of the report under the Federal Funding Accountability and Transparency Act (“FFATA”) for subrecipient awards made from its fiscal year 2014 federal award. The Fund did not establish adequate policies and procedures to ensure compliance with FFATA reporting requirements.

Noncompliance with FFATA reporting requirements reduces transparency of federal awards and could result in sanctions by the EPA including increased oversight and/or reduction or elimination of federal awards.

\$ _____

Recommendation

We recommend that the fund implement policies and procedures to ensure reports are submitted in a timely matter for applicable subrecipient awards.

State of Hawaii
Department of Health
Water Pollution Control Revolving Fund
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
Fiscal Year Ended June 30, 2014

<u>Ref. No.</u>	<u>Compliance and Internal Control Findings</u>	<u>Questioned Costs</u>
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2014-002 Reporting (Significant Deficiency)

Federal agency: Environmental Protection Agency (“EPA”)
CFDA No.: 66.458
Program: Capitalization Grants for Clean Water State Revolving Funds
Federal award No. and award year: FS-15000209-0 10/1/2008 - 6/30/2014

Criteria: In accordance with reporting and registration requirements under Section 1512 of the American Recovery and Reinvestment Act of 2009 (“ARRA”), Public Law 111-5, the Fund is required to report no later than ten calendar days after each calendar quarter in which the Fund receives the assistance award funded in whole or in part by the Recovery Act on the use of funds provided.

Finding and Cause and Effect: During our testing of the reporting compliance requirement, we noted that the Fund did not meet the deadline for submission of reports under Section 1512 of the American Recovery and Reinvestment Act of 2009, Public Law 111-5. The Fund did not establish adequate policies and procedures to ensure compliance with ARRA reporting requirements.

Noncompliance with ARRA reporting requirements reduces transparency of federal awards and could result in sanctions by the EPA including increased oversight and/or reduction or elimination of federal awards.

\$ --

Recommendation

We recommend that the fund implement policies and procedures to ensure reports are submitted in a timely matter for applicable ARRA awards.

PART V
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

**State of Hawaii
Department of Health
Water Pollution Control Revolving Fund
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Fiscal Year Ended June 30, 2014**

**Ref.
No.**

13-01 Reporting (Significant Deficiency)

Federal agency: Environmental Protection Agency ("EPA")
CFDA No.: 66.458
Program: Capitalization Grants for Clean Water State
Revolving Funds
**Federal award No.
and award year:** FS-15000112-0 9/30/2011 - 6/30/2018
FS-15000113-0 9/28/2012 - 9/30/2019

During the prior year testing of the reporting compliance requirement, it was noted that the Fund did not meet the deadline for submission of reports under the Federal Funding Accountability and Transparency Act ("FFATA") for subrecipient awards made from its fiscal year 2011 and 2012 federal awards. The Fund did not establish adequate procedures to ensure compliance with FFATA reporting requirements.

It was recommended that the Fund implement policies and procedures to maintain adequate supporting documentation of the submission of the required FFATA reporting for applicable subrecipient awards.

Status

Unresolved. A similar finding is reported in current year Finding No. 2014-001. Therefore, this finding will not be carried forward.

**State of Hawaii
Department of Health
Water Pollution Control Revolving Fund
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)
Fiscal Year Ended June 30, 2014**

**Ref.
No.**

13-02 Earmarking - Green Project Reserve

Federal agency: Environmental Protection Agency ("EPA")
CFDA No.: 66.458
Program: Capitalization Grants for Clean Water State
Revolving Funds
**Federal award No.
and award year:** FS-15000113-0 9/28/2012 - 9/30/2019

During the prior year testing of the green projects reserve requirement, it was noted that the Fund did not allocate the minimum 20 percent of its federal fiscal year 2010 award to green projects as required in the grant award.

It was recommended that the Fund implement policies and procedures to ensure that the minimum required percentage of each year's capitalization grants are designated through final loan agreements by the end of the year following the grant award.

Status

Resolved. No similar instances noted.

PART VI
CORRECTIVE ACTION PLAN
(Unaudited)

NEIL ABERCROMBIE
GOVERNOR OF HAWAII



LINDA ROSEN, M.D., M.P.H.
DIRECTOR OF HEALTH

STATE OF HAWAII
DEPARTMENT OF HEALTH
P. O. BOX 3378
HONOLULU, HI 96801-3378

In reply, please refer to:
File:

November 25, 2014

Office of the Auditor
465 South King Street, Suite 500
Honolulu, HI 96813

Dear State Auditor:

Attached is the Department of Health's Corrective Action Plan to findings in the SFY 2014 audit report on the Water Pollution Control Revolving Fund.

We appreciate the opportunity to comment on the report.

Sincerely,

A handwritten signature in blue ink, appearing to read "Sina Pruder".

SINA PRUDER, P.E., CHIEF
Wastewater Branch

Attachment

State of Hawaii
Department of Health
Water Pollution Control Revolving Fund
Federal Award Finding and Questioned Costs

Finding No. 2014-001: Reporting (Significant Deficiency)

Federal agency: Environmental Protection Agency ("EPA")
CFDA No.: 66.458
Program: Capitalization Grants for Clean Water State
Revolving Funds
**Federal award no.
and award year:** FS-15000114-0 9/30/2013 - 6/30/2020

Finding and Cause and Effect

During our testing of the reporting compliance requirement, we noted that the Fund did not meet the deadline for submission of reports under the Federal Funding Accountability and Transparency Act ("FFATA") for subrecipient awards made from its fiscal year 2014 federal award. The Fund did not establish adequate policies and procedures to ensure compliance with FFATA reporting requirements.

Noncompliance with FFATA reporting requirements reduces transparency of federal awards and could result in sanctions by the EPA including increased oversight and/or reduction or elimination of federal awards.

Corrective Action Plan

The Wastewater Branch completed the report to FSRS.gov on May 9, 2014. For future FFATA reporting on FSRS, the date that the loan is "made and entered into," as stated in the first paragraph of the final loan, will be tracked to ensure that CBR and FSRS.gov reporting is completed no later than the last day of the month following the month in which the final loan was "made and entered into." The Wastewater Branch did establish adequate policies and procedures to ensure compliance, however, we just did not have the staff to implement these policies and procedures. The reason for the late FFATA reporting was due to the vacancy in the Water Pollution Control Revolving Fund (WPCRF) engineering position that was responsible for the reporting. This vacancy was filled on April 1, 2014. Our new WPCRF engineer will ensure that policies and procedures will be followed to ensure that future FFATA reporting will be submitted in a timely manner.

Person Responsible for Corrective Action

Wastewater Branch Chief

Completion Date

May 9, 2014

State of Hawaii
Department of Health
Water Pollution Control Revolving Fund
Federal Award Finding and Questioned Costs

Finding No. 2014-002: Reporting (Significant Deficiency)

Federal agency: Environmental Protection Agency ("EPA")
CFDA No.: 66.458
Program: Capitalization Grants for Clean Water State
Revolving Funds
**Federal award no.
and award year:** FS-15000209-0 10/1/2008 - 6/30/2014

Finding and Cause and Effect: During our testing of the reporting compliance requirement, we noted that the Fund did not meet the deadline for submission of reports under Section 1512 of the American Recovery and Reinvestment Act of 2009, Public Law 111-5. The Fund did not establish adequate policies and procedures to ensure compliance with ARRA reporting requirements.

Noncompliance with ARRA reporting requirements reduces transparency of federal awards and could result in sanctions by the EPA including increased oversight and/or reduction or elimination of federal awards.

Corrective Action Plan

The Wastewater Branch acknowledges that the ARRA reporting was submitted late. During the time of the ARRA report submittal deadline, there was a federal government shutdown and furloughs imposed. The WPCRFR engineer was unsure if the federal government was accepting reports during this period and did not submit our last ARRA report. The Program found out after the deadline that ARRA reports were accepted. The ARRA report was submitted the next reporting quarter on January 2, 2014, and this completed our submission since we reported all ARRA federal dollars that were disbursed by the Program. We don't believe that there is no follow-up that is needed for this deficiency item since the Program completed the required ARRA reporting as of January 2, 2014.

Person Responsible for Corrective Action

Wastewater Branch Chief

Completion Date

January 2, 2014